JUNE 1955

The Mortgage Banker

in this issue

1955 MBA Calendar

June 19-25—School of Mortgage Banking, Courses I and II, Northwestern University, Chicago.

June 21-22—Conference for Business School Deans and Selected Staff Members, University of Michigan, Ann Arbor.

July 31-August 6—School of Mortgage Banking, Course I, Stanford University, Stanford, Calif.

October 31-November 3—42nd Annual Convention, Statler Hotel and Biltmore Hotel, Los Angeles.

» NYU BOOK READY: The Graduate School of Business Administration of NYU is publishing the proceedings of the Tenth Annual MBA-NYU Conference for Senior Executives in Mortgage Banking in New York January 27 to 29. The Conference had as its theme "The Stability of the Current Building Boom." The proceedings contain the talks of specialists from the fields of investment and finance, real estate, mortgage banking, marketing, life insurance, home building and business education.

Among these speakers were Rodney Lockwood, past president, National Association of Home Builders; Alexander Stott, controller, American Telephone and Telegraph Company; Dr. Roy L. Reierson, vice president, Bankers Trust Company; Carton S. Stallard, vice president and secretary, Jersey Mortgage Company; Dr. Gordon W. McKinley, director of economic research, The Prudential Insurance Company of America; and Dr. G. Rowland Collins, dean of the NYU Graduate School of Business Administration.

Copies of the proceedings are available at $2 from Dr. H. W. MacDowell, Graduate School of Business Administration, New York University, 115 Broadway, New York 6, N. Y.

The Mortgage Banker

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Volume 15 **JUNE, 1955** **Number 9**

Contents

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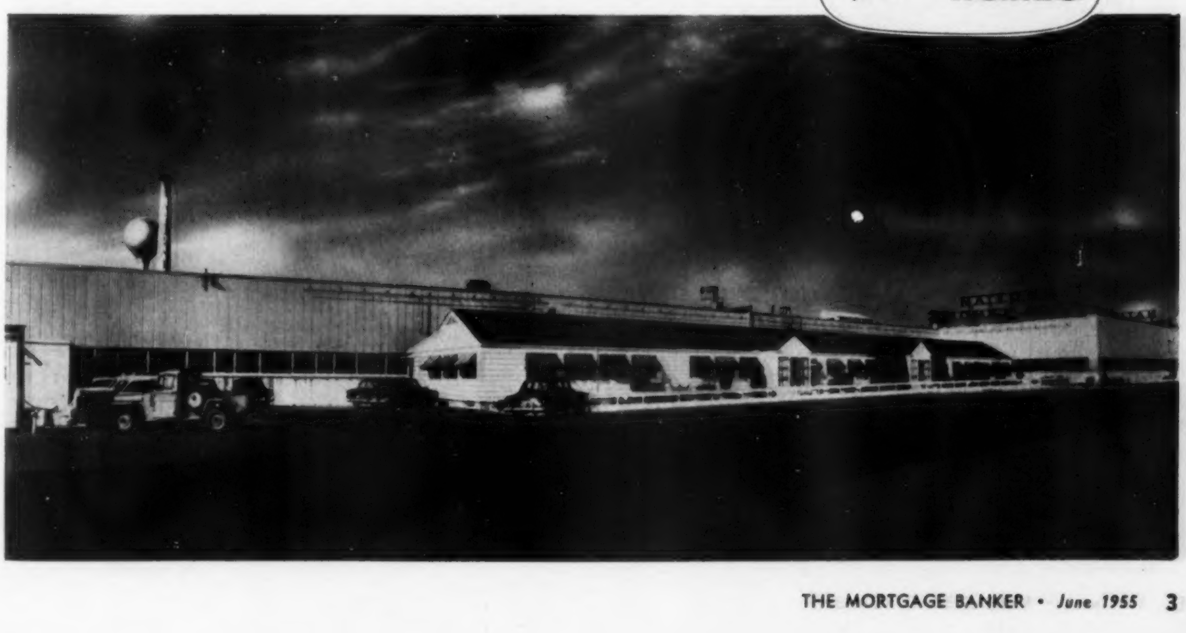

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BUSINESS PARADOX

When a new building is erected or an existing one sold, one of its most important profit-making factors is the margin by which its depreciation allowance for tax purposes may exceed the actual amortization payments on its mortgage. For all practical purposes this is highly-prized tax-free income. But as time passes, amortization usually increases until it surpasses tax-purpose depreciation rates, and then the shoe is on the other foot—the owner will find himself having to meet a large part of his amortization out of the income remaining after taxes.

This produces some ironic effects: the longer the term of the mortgage for a building the better it may be for the owner; on a re-sale the purchaser also will usually want to refinance the structure with a new loan as high and as long as can be obtained.

These points are made by Miles L. Colean in a discussion of "The Mortgage Pattern Predicament" in Architectural Forum.

In an example shown, the tax-free income, or the margin by which tax-deductible depreciation exceeds actual amortization, was considerably greater in volume and also was spread over a much longer period of years whenever the original mortgage was made for 30 years, rather than 25 years. On the straight-line depreciation basis, such tax-free income continued for thirteen years on a 30-year mortgage, but ended after only six years on a 25-year mortgage.

Commenting on the conclusion apparent from this situation—the longer the amortization period the greater the tax-free-income, Colean says:

"This conclusion may do violence to the principles of prudence and frugality, but it stands nevertheless. It may be argued that the investor should consider that the shorter mortgage maturity brings him sooner to the time when the property will be debt-free and all the income not taken by taxes will be his. The fact is, how-

ever, that the investor is not likely to consider this seriously. His concern is with how to live through the period of the mortgage, not with how comfortable he may be afterward—in case he should live through it. And his chances of survival are likely to appear better with a longer term loan."

As a practical matter, however, as the owner approached the point where he had obtained the maximum benefits from the property and it faced the prospect of a sharply declining net yield, the owner would probably try to sell the building, looking for a purchaser who would be able to transfer it to another corporation and set it up on a brand new depreciation account. If he could not sell advantageously, Colean explains, he would face two possibilities, neither of which may seem attractive:

» He may live with the property to the prospective happy day when the mortgage is paid off, taking only a meager dividend or perhaps putting in new capital to cover taxes. The latter expedient, in particular, could only be justified by the unlikely possibility of future capital gain.

» He could apply part or all of the tax-free income of the early years to prepayment on the mortgage, thus bringing the amortization line more closely parallel with the depreciation line. The same result could be obtained by changing the loan pattern from one of a constant periodic payment for interest and amortization combined to one where the amortization payment is constant and the interest payment, and consequently the combined charges, decline year by year.

"These choices, however, assume that the venture investor is in for the long pull and is willing to forego the quick recapture of his capital for reinvestment in new ventures. This is a far-fetched assumption."

REALISTIC RATIOS

Mortgage lenders would like to see that 66⅔ per cent ratio increased. We are in a new era as far as that factor in lending is concerned. It was established years ago, in a day when risk had little relation to the times and conditions of the present. The idea

has been thrown out and it is catching on. (Reprints of MBA Vice President Lindell Peterson's comprehensive article on the subject are available.)

Now, the banks would like to have their permissible ratio increased—to 66⅔ per cent and the maturity extended to 20 years.

Lending powers which would enable national banks to compete more favorably with other lending institutions in making conventional loans have been asked by ABA.

The federal statutes limit national banks to only two types of conventional loans, one a loan that does not exceed 50 per cent of the appraised value, with no amortization required at all and maturity of not more than five years; the other a 10-year loan up to 60 per cent of appraised value but with amortization payments sufficient to reduce the loan 40 per cent during the 10-year period.

In a majority of states, state-chartered banks, mutual savings banks, state-chartered savings and loan associations, and life companies have either no restrictions or enjoy more favorable terms than do national banks, both with respect to maturity and maximum amount of loan. Federal savings and loan associations are authorized to make conventional real estate loans up to 25 years maturity and 80 per cent of appraised value.

ABA is asking that, in the case of a 20-year loan made on a conventional basis and fully amortized, the percentage of appraised value be raised from 60 per cent of appraised value to 66⅔ per cent and the maturity limit be extended from 10 to 20 years when the loan is to be fully amortized. These changes would put the maximum conventional loan permitted to national banks more in line with those permitted to most private lending institutions by the statutes governing them.

This liberalization would also benefit the borrower, John A. Reilly of ABA said. The 20-year maturity on conventional loans would eliminate the necessity under the present law of national banks refinancing the loan at the request of the customer at the end of the tenth year. By being able to make conventional loans that could be liquidated in 20 years by monthly payments, a real saving of money to the borrower as well as the banks would result.

ABA also asks that the present limit on residential construction loans by national banks be extended from six months, as in the present law, to nine months and that national banks be given additional authority in the law to make construction loans on industrial or commercial buildings and that the maturity limit on this type of loan be set at 18 months.

Mr. Reilly asserted that "when a borrower has saved enough money to make a down-payment of one-third of the purchase price of a home, a bank should have the facilities to make him a permanent loan on an amortized basis that will be self-liquidating in 20 years. Such a person is a discriminating borrower. It is difficult to sell him the idea that if he meets his payments promptly, there will be no difficulty in negotiating a renewal on the same basis 10 years later. Neither the lender nor the borrower can forecast accurately what the

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MBA has again published *FHA Payments at a Glance* in convenient booklet form. With it you can determine instantly the payments on 15, 20, 25 and 30-year loans. The loan amount is shown, the monthly payments of principal and interest, the mortgage insurance premium and total payments.

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economic conditions will be 10 years after a loan is negotiated and what the condition of the money market then will be. The interest rate is very important to this type of borrower. He makes the best deal he can and wants to be assured that the rate will not change until his loan is made in full."

THE NATION'S INVESTMENTS

Investments of the American public in leading types of savings media—life insurance reserves, U. S. savings bonds and savings accounts—reached a new high of $222 billion at the end of 1954, topping the previous year by more than $14 billion. With the exception of postal savings, all types shared in this rise, with savings and loan associations and credit unions experiencing the largest percentage increase—20 per cent.

The cash value of life insurance policies, aggregating close to $70 billion, represented the greatest portion of the total, followed by U. S. savings bonds with nearly $50 billion and time deposits in commercial banks totaling almost $45 billion.

DANGER IN 30-YEAR LOANS

The 30-year, no-down payment mortgage loans guaranteed by VA are "an open invitation to a boom-bust situation in home-building," the life insurance business has declared in urging prompt action by government and private groups to tone down the boom in housing.

These views regarding the current record level of residential construction and its economic implications were contained in a statement issued by the Joint Committee on Economic Policy of the Life Insurance Association of America and the American Life Convention.

Chairman is Carrol M. Shanks, president of Prudential.

Specific action recommended by the life companies was that immediate steps be taken to tighten upon the down-payments and amortization periods for both VA and FHA mortgage loans.

The companies also urged that the federal reserve system be given the authority to regulate the terms under which government-insured and guaranteed loans be made.

"The life insurance business believes," the Association's statement said, "that the current very high rate of residential construction has inflationary implications which should be a source of concern for the Administration and all interested in a sound home building industry. At the present pace home construction is definitely borrowing from the future.

"During the past decade the high volume of residential construction has been most desirable. It has made an enormous contribution to improved living standards for the American people and has exerted an important stabilizing influence on the national economy as a whole. This high and well-sustained level of residential construction has been the natural outgrowth of a backlog of demand built up by the dearth of home-building during the war, the rapid rate of new family formation, and the generally prosperous state of our economy. Moreover, it is in the national interest that residential construction continue at a healthy rate to meet the needs of our people and to maintain its stabilizing influence on general business activity.

"We believe, however, that at the current very high rate the residential construction industry is drawing on future demand and is doing so in the face of mounting inflationary pressures. It is evident, therefore, that measures need to be taken promptly by government and private groups to dampen down the boom in housing.

"The basic cause for this boom is excessively easy credit. This is certainly no time for 30-year, no-down-payment mortgage loans guaranteed by the Veterans Administration. Such terms are an open invitation to a boom-bust situation in home-building, and they actually penalize the veteran by contributing to a higher price for his house. We urge that Congress act promptly to require some down-payment and a shorter maximum amortization period on VA mortgage loans. Moreover, down-payment and amortization terms on FHA insured loans should also be tightened promptly.

"We believe that it would be desirable to empower the board of governors of the federal reserve system to regulate the terms under which government-insured and guaranteed mortgages are made, namely, the interest rate, the down-payment, and the maximum amortization period. These terms should be administered flexibly and in accordance with sound credit policy."

In addition to Mr. Shanks, the members of the Joint Committee on Economic Policy are: O. Kelley Anderson, president, New England Mutual Life; Morton Boyd, president, Commonwealth Life; H. W. Brower, president, Occidental Life; Raymond R. Brown, president, Standard Insurance; Louis W. Dawson, president, Mutual Life of New York; Frederic W. Ecker, president, Metropolitan; Edmund Fitzgerald, president, the Northwestern Mutual Life; Devereux C. Josephs, chairman, New York Life; Frazar B. Wilde, president, Connecticut General; and James Ralph Wood, president, Southwestern Life.

THE NEW CITY

NEW things aren't necessarily better things. A new home isn't always a better home, nor a new neighborhood a better neighborhood—just because it's new.

Albert M. Cole

What we want in the New City is a really better city, better suited to our needs and times, better planned for our future growth, better designed for the way our people want to live.

We don't want change in order to have something different, but in order to get something better. We're not out just to destroy everything we've built in the past.

On the contrary, we are seeking to preserve and revitalize the good we have built into our cities, at the same time that we replace what we have outgrown and worn out.

This is what we mean by the renewed city, and by "urban renewal" as it is conceived in President Eisenhower's new program and the Housing Act of 1954.

We are approaching the new and better city we've talked and dreamed about for many years. In a way, it still seems to be something we hope for in the distant future, a kind of castle in the air.

This new city is no longer a distant dream. It is materializing before our eyes, it is developing from coast to coast under the driving force of private enterprise with local, state and federal help. It is what our public wants.

Few realize how great and rapid a change is being wrought today all across the nation. I have been in numerous cities and towns. It is my job to go and see.

In more than 100 communities, ranging from small towns to our largest metropolitan areas, 185 clearance and redevelopment projects are either in work or soon to start. One way to grasp the scope of this activity is to assume for the moment that all this work is concentrated in one place.

Here is what it adds up to:

›› The removal of sub-standard housing in these areas is the equivalent to clearing all the slum housing in the cities of Detroit and Boston combined or of Baltimore and Atlanta.

›› It is equal to eliminating all the slum units in the cities of Buffalo, Denver and San Francisco.

By **ALBERT M. COLE**
Administrator, Housing and Home Finance Agency

Here Mr. Cole takes a look at the City of Tomorrow, the city that will appear after we have made some real gains in slum clearance and urban renewal. He points out what has been done so far, what is going on now—and it is a more impressive record than most people appreciate. But he digresses from his subject to emphasize his continued opposition to any move which would divorce FHA from the Housing and Home Finance Agency, an action which MBA and other groups have recommended.

» Or, to spread it out more, it amounts to getting rid of the slum housing in all of these six cities: Dallas, Toledo, Omaha, San Diego, Providence and Little Rock.

And that's not all.

These projects involve the clearance, replanning and redevelopment of more than 7,000 acres — or 11 square miles.

This means clearing and rebuilding an area the size of Raleigh, N. C., or Schenectady, N. Y., or Atlantic City, N. J.

What about people? These undertakings will mean decent housing in place of slum and blighted homes for more than a quarter of a million people — nearly 80,000 families. This amounts to rehousing the total population of such cities as Miami or Oklahoma City or Long Beach.

In addition, another 100 such projects, more than half again as many, are in the early planning stages.

Of even more far-reaching importance, however, are 100 communities that are developing, or have completed, community-wide workable programs, not only to clear slums, but also to undertake full-scale rehabilitation, preventive and conservation measures to eradicate the effects of blight. Many of these will have broadscale action under way this year to upgrade neighborhoods, revamp obsolete street patterns, open up deficit areas to greatly increased and productive use and to expand the clearance and re-use of worn-out, high-tax-low revenue sections.

This is the box score nine months since the broad urban renewal program became law in the Housing Act of 1954. Slum clearance work has been going on for several years, but there has been a tremendous intensification of the activity under the stimulus of the new program. It is now reaching out all over the nation. A revitalized private industry in communities everywhere is now giving vigorous support to planning programs and social responsibilities, once thought to be the bailiwick of long-haired dreamers.

Already this is potentially a billion-dollar business in redevelopment and reconstruction, the great bulk of it by private investment. This represents, in fact, a national ground-swell of major proportions in our economic and in our urban life.

The new city, the better city, is no longer a myth and a dream. It has come into being throughout the nation.

We can take real satisfaction in what is being done in urban renewal. In no small part it represents the force of progress that motivates American private enterprise.

This new city will be your city. It will be of your design and construction. We are handing down no blueprints from Washington.

We are offering federal assistance to carry out plans. All we ask is that the new city shall be a better city—

that it shall serve the needs and interests of the whole community, not just special or privileged segments.

The urban renewal program is off to a successful and gratifying start. But there are dangers in early success —many of them hidden dangers.

I see some rough times ahead as we begin to feel the impact of the changes wrought on our own particular fields of interest. And there is always danger in losing sight of the fact that we owe our progress to common agreement and common purpose among many groups and interests and to the coordinated use of all our resources.

Either of these dangers could derail the urban renewal program and wreck our hopes for the new and better city. Business enterprise will need to exert strong moral and civic leadership for cohesive action if these dangers are to be avoided.

Officials in many of our cities today are trying to bring about effective enforcement of local codes. And most of them are having a tough time.

The slums die hard because slum proprietors hate to see them go. Few of them really care how the people in the slum live, and fewer still, apparently, really care if taxpayers have to pay a subsidy to the municipal services to keep their rent collections level. I am no "do-gooder" in the satirical sense of the name, but I get sore seeing so much tax money supporting the contempt of the slum owners. They employ every available device of non-compliance and legal obstruction to thwart the efforts of the city and the citizens.

Enforcement is the city's job. But compliance with the law and improvement of the property is the owner's responsibility. We can't piously demand that the city enforce its codes and "clean up the town," and then add in the next breath, "But you'll have to catch us first."

Strong business support of the city's efforts to compel correction of unfit dwellings and the moral force of business to bring about willing compliance by individual property interests is essential. And businessmen see this. Few of America's slums are owned by businessmen who are worthy of the name. This is not a matter of equity or just treatment. It is a question of whether any private interest can assert and maintain a vested right to profit from the degradation and financial loss of the community as a whole.

The business community is relied upon to meet the private development requirements in these renewal areas that are now coming on the market. We recognize that this is a new field of investment, with a number of imponderables to be worked out. For that reason, the new Housing Act provides for special government mortgage insurance through the FHA for new and rehabilitated housing in renewal projects.

This is also a field of new investment opportunity in prime properties with built-in security and protection.

I am not seriously concerned about how business enterprise will measure up to these responsibilities. As a matter of good conscience and good sense, I am confident it will assume its full role of leadership.

A more subtle danger, as the program moves ahead, is whether we will maintain the high degree of coordinated and cooperative interest we have been able to achieve. More im-

portant than the projects we have under way is the mutual understanding and common effort that has been developed among all interests concerned.

A few years ago, housing was in danger of becoming a Tower of Babel. The men responsible for its progress were shouting at each other in foreign and hostile tongues. Today you will find these same interests sitting about a common conference table, talking the same language, and basically seeking the same things. They have learned that no one of them has the whole answer, but each has a contribution to make; and there is much they can do by working together.

This concert of effort has been matched and fostered by better coordination and consistency in the federal government's housing activities and policies. That coordination is effectuated, on behalf of the President, through the Housing and Home Finance Agency.

Most responsible people in the housing and community field have strong feelings that coordinated Agency effort is essential in the administration of the federal program in housing and its financing. Those who have studied the matter, including the Congress, the first Hoover Commission, and the President's Advisory Committee on Housing Policies and Programs, have all concluded that such coordination is necessary, and some have even recommended that it be strengthened more than it is. There are also, sadly, a few who would like to profit from the chaos caused by the very disunity we all fought so hard to overcome.

Under the President's new program for community renewal, consistency of policy and coordinated action is now more important than ever. It has been carefully provided for in the law—and as long as I can fight, it will stay there. Five of the HHFA's seven major divisions are directly involved in most intricately related operations to help the community carry out its local urban renewal program. The functions of the other two, though somewhat more indirect, are also important to the whole. Failure to integrate these aids at the federal level could lead only to discouragement and complete frustration of the communities throughout the country.

But there are still some partisans who don't like it that way. Even guerilla warfare goes on in some quarters. Sharpshooting is heard in the bushes and potshots are taken at coordination in the federal government. I have traced some of these down and found nothing but muddy tracks leading nowhere. Confusion of direction seems as common among them as their confusion about the ideals and the responsibilities of this Administration to best serve the nation with heart—and with efficiency.

These dissenters have redoubled their efforts to drive a wedge into the housing agency, break it into fragments, and insulate their particular sector against governmental coordination or responsibility. They would rather "go it alone" for they believe that their partisan interests would be better served by a return to the philosophy of "every man for himself."

With this I do not—nor will I ever concur.

Some of this kind of thinking was insinuated into early reports prepared for—not by—the new Hoover Commission as part of its study of government lending functions. But the Hoover Commission—as usual—took it out. I do not know what they did with it.

The Commission, however, did not adopt these proposals—nor did it recommend that the housing agency be broken up into free-wheeling components. The Commission's own review was thorough and responsible. With most of the Commission's recommendations we would not argue, since they largely represent policies that the Agency and the Administration has already adopted.

A few we question. On one in particular, after full study, we have some dissent. This one—although I don't think the Commission so intended it —would, if applied to its full extent, remove a keystone from the very structure of federal housing policy itself, and render inoperative a vital part of the President's program.

This was the Commission's recommendation that the FHA be "reorganized" so that it would not have to call on the government for funds, possibly along the lines of the Home Loan Bank Board.

What does this mean? And what effect would it have?

The FHA has always operated without calling on the government for funds. Its costs and reserves are provided from mutually-owned funds obtained through premiums and fees. If the proposal means — as I think it probably does—that study should be given to further perfecting this mutualized system, consistent with FHA's public responsibilities, I would agree, for we are doing that.

But if it means—as some would like to interpret it—that the FHA should be reconstituted as a separate, privately-owned corporation, with or without authority to borrow from the government, and that it should operate on its own corporate resources and under its own policies, subject only to distant federal regulation, then I strongly disagree.

If this were to be done, it would mean much more than just changing its organizational structure, and removing the government as its financial godfather. It would mean a basic change in the character and purpose of the FHA as it now exists—a strong bulwark in our economy. Furthermore, it would, in effect, accomplish the fragmentation of the Agency and destroy the basis for the coordinated use of federal programs in the housing and community development field.

The real question here is whether the FHA should continue to serve a public purpose, as it has done in the past, or whether it should become simply a government-regulated instrument to provide greater security for private mortgage investments on their own terms.

To be sure, the FHA mortgage insurance program has provided valuable security to private lenders. This has been important to the economy—but it has also been a means to a much larger end. The FHA has done a great deal more to further economic progress and serve the public need.

Because of the government credit behind its debentures and reserves, the FHA has been able to provide a mortgage instrument to private lenders that has enabled them to make low-cost home loans on a secure basis to a great mass market of homebuyers who could not have been financed on the basis of normal private credit alone.

FHA, in fact, has provided a great example of how the government—

(Continued on page 54)

The Tools You Need in Appraising for Mortgage Loan Purposes

By **L. W. ELLWOOD**
M.A.I., Chief Appraiser, New York Life Insurance Company

Appraising is the science of measurement of property value. Appraising for mortgage loan purposes today rests upon a set of principles on which there is a remarkably unanimous agreement; but it is in the by-ways of appraising where the differences of viewpoint occur. Concepts of appraising, as in almost every other activity, change from time to time and the appraiser's job changes with them. This article, about one of the biggest and most important parts of the mortgage industry, is remarkable in many ways, one of which is that it covers in one place the principal conclusions and concepts of mortgage loan appraisal. Mr. Ellwood is a leading authority on loan appraisal.

AT ONE time or another, appraisers are required to learn something about every business under the sun; for every business uses real estate; and each one requires appraisals in connection with financing the particular type of property essential to its needs. A text of many volumes on appraising for mortgages could easily omit advice concerning the specific kind of property the reader is concerned with at the moment. The best we can do here is attempt to cover fundamentals which we feel applicable to the appraisal of all properties offered as security for mortgage investment. To do this, it seems advisable to start with conclusions, followed with reasons. First, the conclusions:

1. Value must be expressed in dollars as of the effective date of appraisal.

2. To express value in dollars, the appraiser must imagine a market transaction between buyer and seller in which all rights, benefits and obligations of ownership would be exchanged for dollars, as of the effective appraisal date.

3. The mortgage loan appraiser has no interest whatever in the seller's point of view. His investigation and appraisal must be made exclusively from the standpoint of a prudent purchaser buying property for personal use or income investment.

4. The $64 question is: What is the maximum amount an expert buyer would pay for the property under specific terms and conditions as to financing the purchase price? The more expert the answer, the more reliable the appraisal of the property as mortgage security.

5. When appraising for an institutional investor whose ratio of loan to value is limited by statute, the appraiser should assume that the amount of loan will approach the legal limit; he should ignore the applied-for amount. He is responsible for finding a value against which the maximum, legal loan would be a safe, long-term investment.

6. The legal limit, in ratio of loan to value, and the rate of interest at which such loan is available are among the prime factors in the appraisal process. They go a long way toward establishing the correct rate of capitalization. There should be no guessing about them. The appraiser should be informed on these points before he starts.

7. Major emphasis should be placed on finding a genuine and marketable equity above the maximum legal loan. The amount an expert buyer would pay out of pocket for such equity, plus the maximum legal loan is the ideal appraisal.

8. Statistics indicate that the average term of ownership of residential and standard investment properties is 8 to 10 years. In the absence of firm and reliable leases for longer terms, the appraiser should not at-

tempt to predict the future life and performance of property beyond *one* average term of ownership. If he can support longer forecasts by lease stipulations, he may find it advisable to use them for the time factors in his calculations.

9. The attitude of the appraiser should be that of a scientist who regards no result as trustworthy until every reasonable test has been applied. But, when he has completed his investigation and arrived at his tested judgment of value, he should refuse to change it one penny for anybody unless—and until—errors in fact can be shown him.

Now for the reasons:

The effective date of appraisal is the date upon which all rights, benefits and obligations of ownership, as contemplated by the appraisal, would be conveyed to a new owner by warranty deed or assignment. If the appraisal covers proposed new construction, or is subject to making certain repairs or alterations, the date of completion of the new building, repairs or alterations is usually considered the effective date.

L. W. Ellwood

There is no such thing as long-term value. Value is a dynamic thing subject to fluctuation according to supply, effective demand and other economic forces. Nevertheless, the usual mortgage is a long-term investment. And, the experienced mortgage lender knows he will have little chance of collecting future mortgage payments unless the property earns them, plus enough to keep the equity owner interested in applying reasonably competent management.

The interest of a seller terminates upon receipt of the selling price. He is not concerned with future performance. In total contrast, the sole interest of the buyer lies in future performance: in the utility or income he can obtain during his term of ownership, plus the proceeds of resale at the end of such term. These buyer interests are virtually identical with those of the mortgage lender. If the price paid by the buyer is right and the mortgage financing is based upon it, both buyer and lender will experience profitable, capital investments.

The much overworked definition which affirms value to be "a price agreed upon between willing seller and willing buyer, neither acting under compulsion, both well-informed, etc., etc.," is idealistic nonsense so far as the mortgage loan appraiser is concerned. It involves two directly opposed points of view. The appraiser's employer is probably being asked to furnish the majority of the cash for purchase. His employer's money is riding on his decision as to the justifiable purchase price. Let us not confuse him by imposing a definition which requires him to think for both parties to the auction. It is not the duty of the mortgage loan appraiser to reflect the market. It is his duty to *be* the market in a postulated exchange of property for dollars. Let him think out the answer to each problem strictly from the well-informed buyer's point of view. And, when his decision is reached, let his attitude be "take-it or leave-it."

The rules for successful investment in real estate are few in number:

» Buy it at the right price.

» Manage it wisely.

» Sell it at the right price.

"Right price" and "value" are synonymous. And, "value" is always the amount of capital upon which a satisfactory rate of return can be earned by complying with rules 2 and 3, referred to above.

The first mental reaction of a mortgage negotiating officer to an appraisal is a calculation of the legal limit of loan to appraised value. If he is employed by an institution whose statutory limit is two-thirds and appraised value is $150,000, the figure $100,000 becomes the standard of comparison by which he judges the quality of the loan application, so far as collateral security is concerned. If $80,000 has been applied for, he is in position to resume processing. If the application is for $120,000, he must negotiate downward or reject the offering.

Occasionally, an appraiser will receive an assignment where he knows the amount applied for is a comparatively small fraction of a justi-

fiable valuation. It may tempt him to report an ultra-conservative figure, on the theory that one should always take full advantage of special safety factors when available. Obviously, deliberate under-appraising is not as bad as deliberate over-appraising, but it is the next thing to it. It always puts the appraiser in a box whenever, subsequently, an increased loan is applied for (a frequent occurrence in low percentage loans). His only alternatives are: a silly excuse that important amenities were omitted in the interest of conservatism, frank confession of error in the first appraisal, obstinate refusal to retreat from his original report.

It is always best policy to assume a maximum legal loan and to make every effort to report a value against which it would be a well-secured investment.

Armed with knowledge as to the statutory limit of loan to value and the interest rate at which such financing is available, a simple calculation tells the appraiser the exact rate of return that is satisfactory with regard to a major portion of the justifiable purchase price. If the legal limit is 66⅔ per cent of appraised value and mortgage money is available at 4½ per cent, 66⅔ per cent of 4½ per cent is 3 per cent, then, 3 per cent of the final valuation covers the annual cost of financing two-thirds of the "right price." This is a big step toward finding the satisfactory over-all rate of return. It is one of the few critical factors in an appraisal about which there should be no conjecture.

The next step in determining a satisfactory over-all rate of return is to determine the rate which would be attractive to prudent equity money. This is a very important decision because the equity represents the entire margin of security for the mortgage investment. So long as there is a genuine equity which can be sold in the market-place, over and above the mortgage balance, the holder of the mortgage has an investment in which there is no fear of capital loss.

Decision as to an attractive equity yield requires careful consideration of several factors:

» Risks involved in estimating the future stream of net income; its characteristics as to quality, stability and durability; ratio of stabilized net to stabilized gross. It does not take much vacancy or collection loss to wipe out the net to equity, when expenses and fixed charges constitute a high percentage of the gross rent. Experienced equity buyers, in such cases, generally want to see a good chance to recover all their capital in the first 3 to 5 years of ownership.

» The burdens and obligations of management.

» Non-liquidity. Regardless of the certainty of income and stability of value, real estate equities are never on par with good stocks and bonds having equal earning potential. This is because it takes more time and costs more money to convert real estate equities into cash when it is needed.

» Speculative possibilities as to future depreciation or appreciation in market value of the property.

» Allowable periodic deduction from earnings for capital recovery (called depreciation by accountants and income tax authorities) in computing income taxes. This has become a major motivating force in many investment real estate transactions. When allowable deduction exceeds the probable decline in market value, the investment real estate equity has the same attraction for people in high tax brackets as common stocks in growth industries. The allowance can be plowed into mortgage amortization, and the owner gets the advantage of a growing equity at compound interest. When the equity is sold, the owner pays only the capital gain tax on his profit. The capital gain tax rate at 25 per cent is usually quite small compared with the owner's income tax rate. This situation has been instrumental in creating a demand for mortgage money from people who would normally buy investment real estate free and clear. The yield per dollar on an equity subject to a maximum mortgage can easily be two to four times what it would be on the same property if it were bought free and clear.

The Important Management Question

Regardless of other considerations, it is obvious that the equity buyer assumes all the risks above the mortgage. He can suffer total loss before the mortgagee faces any loss at all. Therefore, the prospective yield required to attract smart equity money is almost invariably much greater than the available mortgage interest rate.

The equity buyer, moreover, is saddled with all the obligations and headaches of property management. If he does not take this burden upon himself, he must pay well to have experts do it for him. Whether or not the appraiser should include this item in his capital rate structure or as a cost of operation depends upon the amount and quality of management required. In single tenant operation where the tenant assumes maintenance, heating and utility requirements, very little management is involved and most landlords attend to it as a matter of course. Whatever they save in this way is considered part of their yield on the investment. Multiple occupancy, owner-serviced property is another matter. Management in such cases is a costly item which should be fully covered in the estimate of expenses, regardless of who does it.

On the basis of comparative risk, management responsibility and non-liquidity, we rarely find a two-thirds mortgage, one-third equity situation in investment real estate where an experienced equity buyer would be attracted by a prospective yield of less than twice the available mortgage interest rate.

When the appraiser has made a careful estimate of the average annual net income potential of an investment property for a limited number of future years and has decided what rate of return would attract prudent equity money, he is in position to set up the capital structure for the postulated market transaction and to compute the composite net yield needed to bring mortgage and equity money together to form a justifiable purchase price. Let us assume, for example, that the capital structure is based on a two-thirds

mortgage, one-third equity hypothesis. Assume further that mortgage money is available at 4½ per cent and the appraiser's estimate of the attractive equity yield is 10 per cent. He would then calculate the over-all net yield as follows:

Mortgage
Money, 66⅔% at .045 = .0300
Equity Money, 33⅓% at .10 = .0333
Composite total, .0633 or 6⅓%

If net average annual income were estimated at $19,000 (after depreciation) in such a case, the valuation would be:

19,000/.0633 + = $300,000

And, the assumed distribution of capital and income would be:

	Capital	*Rate*	*Income*
Mortgage Money	$200,000	4½%	$ 9,000
Equity Money	100,000	10 %	10,000
	$300,000		$19,000

General adoption of the long-term, constant periodic installment, amortization type of mortgage contract by most institutional mortgage investors has given the appraiser a distinct advantage in allowing for future depreciation. With this type of financing available at a long-term contract rate, it is safe for him to assume that his employer will require amortization at least equal to and probably in excess of his depreciation allowance. Thus, it is not only proper but most realistic for him to calculate his annual depreciation allowance on a sinking fund basis at the available mortgage interest rate.

To demonstrate this, let us say that the appraiser has assumed the next 10 years as a basis for estimating the average annual income and, after careful consideration of what will probably happen to the market value of the property in 10 years, he decides that it is safe to assume that it will not decline more than 20 per cent from the present level. Then, if the other conditions as to mortgage and equity money are the same as in the foregoing illustration, the appraiser can calculate his over-all capitalization factor, including depreciation (taken as a minimum amortization requirement) as follows:

Mortgage Money	66⅔%	@ .0450	= .0300
*Amortization to cover depreciation	20%	@ .0798	= .0160
Estimated Minimum Mortgage requirement			.0460
Equity Money	33⅓%	@ .10	= .0333+
Composite Capitalization factor			.0793+

**Note: .0798 or 7.98 per cent of total present value is four times the quarterly sinking fund payment required to amortize 100 per cent of value in 10 years at 4½ per cent. In other words, it is the annual requirement when payments are made quarterly. (Monthly payment would not make enough difference to substantially affect the answer.) Twenty per cent of .0798 or .01596, call it .0160, is the annual requirement to protect the margin of security against 20 per cent depreciation in 10 years.*

Now, if the appraiser's estimate of average annual income *before* depreciation is $23,800 his valuation would be:

23,800/.0793+ = $300,000

And distribution of income would be:

Mortgage Interest	$200,000	@ 4½%,	$ 9,000
Amortization to cover depreciation	$300,000	@ 1.6%,	4,800
Assumed Minimum Mortgage requirement			$13,800
Equity Income	$100,000	@ 10%,	10,000
Total			$23,800

If $13,800 per year, including interest and amortization, is applied to a $200,000, 4½ per cent mortgage on a quarterly installment basis, the mortgage will be reduced slightly more than $60,000 in 10 years or 20 per cent of the $300,000 valuation.

Clearly, the greatest item of conjecture in this process is the proper allowance for depreciation. However, the method does permit considerable room for tolerance. In the above example, for instance, a 100 per cent error in either direction by the appraiser makes the range of equity return 4 per cent to 16 per cent. If market value drops twice as much as the appraiser's allowance, the average annual profit on the equity investment of $100,000 would be a little over $4,000. If market value does not decline at all, the average annual equity profit would be $16,000. The only effect on the mortgage position is in the margin of security.

In actual practice, the mortgage negotiating officer will probably propose a standard 15, 20 or 25 year amortization contract. This makes little difference as far as the appraisal is concerned. As a matter of fact, the equity profit is increased somewhat in the long run if the amortization requirement exceeds depreciation; because, in this case, equity value increases on a compound interest basis.

The quality of an appraisal report, at the time it is made, can be judged only by its completeness in the presentation of pertinent facts, the plausibility of the judgment factors and the accuracy of the arithmetic by which the judgment factors are processed to a value conclusion.

Time is one of the critical judgment factors. The appraiser who assumes occult powers, to the extent that he can forecast the entire remaining useful life of a modern building — and, also, foresees that land value will remain the same upon demise of the building some 40 to 60 years later as at time of appraisal, is not very plausible to say the least. When he does this, he not only makes predictions which cannot be supported by experience, but he is inconsistent with the concept of a single market transaction between one buyer and one seller. The typical real estate buyer does not believe he can see that far ahead, nor does he often expect to own the property until the improvement crumbles into dust. Change in land value, moreover, is probably the greatest single cause of building mortality outside of

destruction by fire, flood, etc. Either the demand for the land for some other use becomes so intense that it is profitable to replace the existing improvement, or it becomes part of such a miserable slum that its only value is a speculative one in anticipation of eventual redevelopment of the entire area. Neither situation is consistent with the theory that land value remains forever at the same figure.

For this reason, the standard cost accounting type of appraisal—where land value is considered as never changing, and the capital improvement is written off at an arbitrary annual rate over a long span of years—causes the experienced and practical mortgage investor to question the reliability of the appraiser's judgment in general. Since the time factor is very important in considering mortgage security, we believe it is much better for the appraiser to concentrate his efforts to estimate average performance and value trend during the early years when the mortgage investment undergoes its seasoning process. Mortgage amortization automatically accelerates at an increasing pace thereafter, and the margin of security grows accordingly.

If you wonder why, thus far, this discussion has been confined to the capitalization of income, it is because this is the only approach to value based on an estimate of the future benefits of ownership. Of course, future benefits of ownership are the only items of interest to prospective buyer and mortgage lender. This is not to say that the other classic approaches have no place in the appraisal for mortgage purposes. Both the cost approach and market comparison approach are essential as tests of the initial valuation found by the capitalization of estimated future income in the appraisal of investment real estate.

No prudent buyer will pay more for future benefits than the amount for which they can be duplicated by building or by purchasing a substitute property in the open market. If these standards of comparison show the initial value by capitalization to be too high, it is obvious that the appraiser has selected a rate too low to attract prudent equity money. This rate must then be adjusted accordingly.

For most purposes, the two basic value concepts applicable to appraisal of all real estate are: market value and value-in-use. Market value contemplates exchange of ownership through a voluntary, market transaction; whereas, value-in-use could be defined as the amount an owner would lose if he were deprived of his property through circumstances beyond his control. These values tend to equal each other with respect to properties for which there is a broad market. They tend to stray apart in ratio, to decline in the size of the market, due to specialization in types of property. When a property is so specialized and so unadaptable to other uses that its owner would be the sole market for a replacement if he were deprived of it, value-in-use is the only applicable concept. We have all encountered cases of this type where even the amount which could be salvaged from sale of the land would not be enough to cover the cost of removing the existing improvements in preparation for redevelopment.

Value-in-use appraisals are sometimes required for mortgage purposes. This usually involves a thorough analysis of the financial history and economic responsibility of the owner. Whether this analysis is made by the appraiser or somebody else, the appraiser should point out that his appraisal does not contemplate capital invested in a real estate mortgage being recovered by foreclosure and sale of the property. The appraisal is merely an estimate of the loss the owner would suffer if he were deprived of the property. Cost of replacement, less ample allowance for accrued depreciation, is about all we can do in such cases.

The appraisal process for marketable, owner-occupancy property is fundamentally the same as that employed for investment real estate. Future benefits of ownership, comprising use while owned and proceeds of sale at termination of ownership, are the sole components of value for mortgage security. Instead of renting the property, the occupant rents

money with which to buy it. Questions are: How much rent is warranted? How much money will it hire?

Obviously, the single family home is by far the most common example of owner-occupied real estate. So far as homes of popular size, style and location are concerned, it is generally conceded that in a reasonably balanced market, value will tend to equal cost of replacement less accrued depreciation. Thus, the first appraisal step is usually a summation of estimated costs of a comparable site and construction of similar improvements less depreciation due to age and general condition of the property. This is commonly tested against a record of market transactions in more or less comparable properties. The final and most important test, however, so far as the prospective mortgage lender is concerned, is an economic test to see if additional depreciation should be taken for excessive cost of occupancy.

Long after the cost of construction is forgotten, the owner-occupant of property will be required to meet carrying charges, taxes, insurance, bills for fuel, utilities and upkeep of the premises. If these items become onerous to the point where the occupant decides he is paying too much for what he is getting, the holder of the mortgage is in for some trouble. A prudent buyer will seek to avoid this contingency by calculating all the occupancy costs to see, not only if they are within the amount he is willing and able to assume, but whether or not they compare favorably with the cost of equivalent accommodations elsewhere. The competent mortgage loan appraiser will apply the same test before he reaches his conclusion and turns in his report.

Excess cost of occupancy is defined as the amount by which cost of occupancy exceeds the normal housing budget of a typical occupant of the property. A typical occupant is one whose income is within the range of those of typical families in the neighborhood, and at about the same level within that range as the level occupied by the size and quality of the appraised property in relation to those of all other properties in the neighborhood. In other words, if the neighborhood income range is $8,000 to $20,000 for typical families, and we are appraising one of the most expensive homes in the neighborhood, we would assume an occupant with an income of about $20,000 for appraisal purposes. Remember, this is for appraisal purposes only. We pay nc attention to the actual income of the actual occupant. He may or may not be typical. His economic status and credit standing have no bearing on the appraisal. They are the concern of the credit analyst or mortgage underwriter. The appraiser's function is that of determining the economic status of a prudent, prospective buyer. From this he can form a rather good idea of the occupancy costs a typical occupant would be able and willing to assume.

Gross Annual Income	Per Cent For Housing	Gross Annual Income	Per Cent For Housing
$ 3,000	30	$15,000	16.7
4,000	27	16,000	16.4
5,000	25	17,000	16.2
6,000	23	18,000	15.9
7,000	22	19,000	15.7
8,000	21	20,000	15.5
9,000	20	21,000	15.3
10,000	19	22,000	15.1
11,000	18.4	23,000	14.9
12,000	17.9	24,000	14.7
13,000	17.4	25,000	14.6
14,000	17.1	30,000	13.7

To determine what percentage of gross annual income people in various brackets spend for housing on an owner-occupancy basis, we pulled several thousand mortgage loan files. Each one pertained to financing of a home purchase, and every case involved a high percentage loan: FHA, GI or full conventional. These files were sorted according to gross annual incomes of the borrowers. The following occupancy costs were then taken from each file.

Mortgage charges, interest and principal
Real Estate Taxes
Insurance
Appraisers' estimate, fuel for heating
Appraiser's estimate, water
Appraiser's estimate, repairs and maintenance

To these we added an allowance for interest at the mortgage rate on any down payment or equity investment. This put all cases on a par with each other so far as the ratio of capital charges to valuation was concerned. One of the most significant revelations of this study was that there was very little overlapping in percentage of gross income from one income bracket to the next. Median percentages of housing costs to gross income determined in each bracket were then tabulated. *(See table page 23)*

The following example is used to demonstrate how the appraiser tests his valuation by summation:

Value by Summation	$24,000	
Neighborhood Income Range:		
Typical families	$7,000 to $15,000	
Classification of property in relation to neighborhood values:		
Middle bracket:		
Estimated income status of typical occupant:		
7,000		
15,000		
22,000/2 = $11,000		
Maximum Safe Housing Budget, Typical Occupant.		
$11,000 x 18.4 per cent = $2,024.00		
Estimated Cost of Housing in Subject, based on Summation:		
Available mortgage interest rate, 4¾ per cent		.0475
Allowance for depreciation 10 years, 15 per cent x .0784		.0118
	Cap. Cost factor	.0593
Capital Cost	24,000 x .0593	$1,423
Real Estate Taxes		165
Insurance		71
Fuel & Water		150
Maintenance		110
	Total	$1,919

Our estimate of total occupancy cost is $105 less than the maximum safe budget. Hence, the $24,000 summation is allowed to stand as the final estimate of value.

Let us now see what happens if the summation happens to be $30,000 with taxes at $250 but no change in other conditions:

Capital Cost	$30,000 x .0593	$1,779
Taxes		250
Other Expense		310
Total		$2,339
Safe Budget		2,024
Deficit		$ 315

Deficit capitalized at .0593 to bring occupancy cost into line with safe budget.
315/.0593 = $5,312 Say $5,400

Final valuation for mortgage purpose:	
Summation	$30,000
Less, economic depreciation	5,400
Value	$24,600

This process was evolved as the result of an exhaustive study of liquidating experience in foreclosed residential loans covering a period of over 20 years. In practically every case where a loss was suffered when the foreclosed property was finally sold, the loss was directly attributable to excessive cost of occupancy, i.e. high taxes, high heating expense, high maintenance cost, etc. In some cases, these items were so high that families for whom the houses were suitable could hardly afford to live in them if they received the properties as a gift. There was not a single case where the estimated cost of replacement could be justifiably criticized.

The $4 billion which home owners pay annually in local property taxes should be recognized as an offset against federal tax payments and not merely as amounts deductible against income as now allowed, the American Real Property Federation urges.

Therefore, we feel that cost of construction is only the point of beginning in the appraisal of residential property. It has to be tested against a normal periodic cost of housing for the typical occupant. If this cost is within a safe budget for the type of family for which the property is an attractive home, another owner-occupant will take over to carry out the obligations of the mortgage should the original one fail to do so.

Although a few computations have been used here to illustrate ideas, it is far from the intention of this writer to encourage the notion that appraising for mortgages, or any other purpose, is an exact science in which pinpoint answers can be obtained through magic, mathematical formulae. It is and always will be a judgment science. Arithmetic is only a tool by which judgment factors based on facts, experience and logic are processed to conclusions. The most perfect mathematics cannot compensate serious error in judgment. By the same token, serious inaccuracies in arithmetic or inconsistent application of it can destroy the most perfect judgment.

The very fact, however, that judgment is a most essential element of our business presents a problem which is having an erosive effect on appraisal practice. For want of a better term, Ed Kazdin calls it "rationalizing the small increase." After full investigation, careful analysis of all the pertinent data, exercise of his best judgment and correct arithmetic, an appraiser arrives at the conclusion that $200,000 is the maximum, safe value of a given property as mortgage security. This is $10,000 short of the $210,000 needed to legalize the $140,000 loan required to complete a desired transaction. "Surely," the argument goes, "appraising is not so exact that an increase of only 5 per cent is unreasonable." Right then and there the honesty and reputation of the appraiser are put to the test. Having arrived at a well-tested and checked conclusion, the appraiser should stand firm. For if, once he opens the door to the constant and insidious pressure against his best judgment, his usefulness as an appraiser will be destroyed.

WE DON'T NEED GOVERNMENT FINANCING FOR MEDICAL FACILITIES

By SAMUEL E. NEEL
MBA General Counsel

DURING the 1952 campaign, President Eisenhower made this statement:

"To bring government closer to the people we will set up these principles and adhere to them: That no federal project, large or small, will be undertaken which the people can effectively do or be helped to do for themselves; that no federal project will be undertaken which private enterprise can effectively undertake; that no project and no program will be started on the federal level which can be undertaken and effectively carried through on the state or local level."

The President has since repeated this statement on several occasions.

In his recent budget message, he included this promise:

"We will increase the scope of private activity by continuing to take government out of those things which the people can do better for themselves. . . ."

The applicability of these expressions of intent by the administration is now particularly significant in the consideration of a measure now pending in Congress to create, under the Secretary of Health, Education and Welfare, an entirely new system for government insurance of mortgages on medical facilities. A brief history of this proposal follows.

On February 3, 1954, Representative Charles A. Wolverton (R-N. J.), introduced into the 83rd Congress a bill, H.R. 7700. This bill was referred to the House Committee on Interstate and Foreign Commerce, of which Mr. Wolverton was chairman.

This bill proposed to amend the Public Health Service Act to provide a program under which the federal government, through the Surgeon General of the Public Health Service, would insure loans made by private lending institutions to finance the construction and equipping of medical facilities. The proposed system was similar to the system provided for rental housing under Section 207 of the National Housing Act. Medical facilities were defined in the bill to include hospitals, diagnostic and treatment centers, personal health service centers, rehabilitation facilities, offices for physicians and dentists, licensed nursing homes and incidental central service facilities.

The bill would have made the Surgeon General the administrator of the system and would have set up a medical facilities mortgage insurance fund. It would have authorized the insurance of $1 billion in mortgages. The limit of any individual insured loan was set at $5 million and at 90 per cent of value, including equipment, with a provision for cost certification. The maximum mortgage term was set at 40 years and the maximum interest rate at 6 per

The history of government insurance of loans is the story of a constantly-expanding federal activity. In the current proposal to insure loans for medical facilities, clinics, hospitals and similar projects, the trend has reached a significant stage of its development. No need has been established for doing what pending bills propose to do in this field—private financing has been supplying, and can continue to supply, the funds needed. The new proposals have some characteristics not previously seen in the development of government insurance of loans. For one thing, the program would be lodged in the Department of Health, Education and Welfare—an agency with no experience in this field.

MBA is opposed to doing what these bills are designed to do. The board of governors, at their February meeting, voted their opposition and re-affirmed it at the May meeting in New York. Here is a development to which every mortgage banker who would like to see more free enterprise in his business and less government interference ought to give most careful consideration. Some place along the line a halt will have to be called and the facts in this suggested program are such that it appears this is the opportunity.

cent. A special provision required 60 per cent of any facility insured to be available for doctors practicing under group prepayment health plans.

Hearings on this bill were held before the House Committee on Interstate and Foreign Commerce in late April and early May, 1954. A number of witnesses appeared, mainly individual doctors or doctors representing group practitioners. Testimony consisted, largely, of outlining the difficulties which these individual doctors had experienced in attempting to finance medical centers for group practice.

Among the witnesses was Henry J. Kaiser of California, who strongly supported enactment of the bill. Mr. Kaiser related the difficulties that his company had experienced in constructing group practice health centers on the West Coast.

The American Medical Association filed a statement with the committee opposing the enactment of the bill, making the statement among others that ". . . there is no proved need for this type of legislation. . . ."

The Wolverton bill was never reported out of committee.

During the fall of 1954 a number of meetings were held under the auspices of the Department of Health, Education, and Welfare to discuss the proposals which had been contained in H.R. 7700. Various representatives of MBA attended these meetings.

Shortly after the 84th Congress convened, Representative Wolverton re-introduced his proposals in two bills (H.R. 397 and H.R. 398).

On January 31, 1955, President Eisenhower delivered to the Congress his message on health insurance. Included in this message were the following paragraphs:

"Many communities in the United States, today, lack the hospitals, clinics, nursing homes and other modern technical facilities required for the protection of the people's health. In other communities, structures are antiquated or otherwise deficient in construction or equipment.

"Present methods of financing are not always satisfactory in meeting this problem. Many sponsors and operators are unable to qualify for grants under the recently extended Hospital Survey and Construction Act. Sponsors of health facilities often find it difficult to obtain private capital for construction.

"In other fields, government-insured loans have consistently helped produce the new construction required in the urgent national interests. The tested procedures developed by such successful government guaranty programs as these should now be used to stimulate construction of additional health facilities.

"I recommend, therefore, that the Congress authorize the Secretary of Health, Education, and Welfare to insure, for a small premium, mortgage loans made by private lending institutions for the construction of health facilities.

"The continuing responsibility of the mortgagor and of the lending institution should be preserved by limiting the insurance to less than the face amount of the loan and by requiring that a mortgage loan, to be eligible for insurance, must be for less than the full value of the property. The authorizing legislation should, of course, include any needed safeguards against the encouragement of sub-standard or unsound projects."

What the Bills Would Do

Following up the President's statement, the administration's Omnibus Health Bill was introduced by Representative Wolverton as H.R. 3720. A companion bill was introduced into the Senate by Senator Alexander Smith (R., N. J.), as S.886.

Title II of each of these bills contains the proposals originally made in H.R. 7700; the significant changes in the proposals, as originally made by Mr. Wolverton, are as follows:

(a) Authority to administer the program is now vested directly in the Secretary of Health, Education and Welfare.

(b) The outstanding amount of insurance liability is not to exceed $200 million, with such liability computed on the basis of 95 per cent of outstanding principal obligations.

(c) The maximum loan is not to exceed 80 per cent of value, but no maximum mortgage amount is stipulated. The Secretary of Health, Education and Welfare is given discretion to establish both the individual dollar loan amount and loan-to-value ratio within the 80 per cent limit.

(d) The maximum maturity is set at 30 years and the maximum mortgage insurance premium at 1 per cent. No maximum interest rate is stipulated.

(e) The requirement that 60 per cent of any facility insured under the act must be available for doctors serving as members of group practice, prepayment health plans is eliminated.

In any consideration of a proposal similar to the one under discussion there are at least three specific questions mortgage bankers will want answered:

1. Are additional funds necessary, above those now being supplied by conventional lending, to provide adequate financing for the type of facilities under consideration?

2. Would the means offered by the bill produce the adequate financing?

3. As a matter of policy, is it desirable to broaden the area of government intervention, even though an unsatisfied desire or need for funds should be proved apparent?

While complete data is not available in order to give entirely categorical answers to these questions, a review of the testimony presented to the House Committee at its 1954 hearings, and a review of the discussions held in the Department of Health, Education and Welfare during the fall of 1954, have led many informed people to the following conclusions:

1. The proposed federal aid is not needed.

2. The proposed plan is impractical and would not yield the results expected of it.

3. The proposal is contrary to sound public policy.

In the Congressional testimony last year, advocates of the plan stressed the difficulties that were encountered in financing the types of buildings under consideration. Several witnesses were brought forward to demonstrate the reluctance of private lending institutions to make loans on their par-

ticular proposals, which mainly involved office and clinical facilities.

It is always possible to find cases, in regard to any type of property, where borowers are unable to negotiate a loan to their satisfaction. The credit and experience of the borrower may be considered insufficient. The earning prospects of the activity may be less than needed to support the loan. The structure itself may be too costly, poorly conceived and doomed to failure at the outset. The amount of the loan offered under such circumstances may fall short of the amount the sponsors need or want.

Since the witnesses all were borrowers, the lenders' reasons for questioning the described cases were not known. The testimony did include communications from some lending institutions pointing out the problems attending loans for special-purpose properties; and the existence of these problems is not to be denied, particularly where the safety of the loan depends on the business ability of the borrower. It is also true that the conventional loan-to-value ratios often require higher equity investments than many borrowers either can, or wish, to put up.

On the other hand, the American Medical Association, as has been noted, submitted a statement to the effect that adequate financing was available for sound projects and that, consequently, the proposed mortgage insurance program was not needed. At the last MBA board meeting in Chicago, members of the Board of Governors were able to concur in this view from their own lending experience on these types of property.

It can certainly be concluded that the need for the new program has not been proved and that a much stronger case will have to be made this year than last, if enactment of the proposal is to be warranted on this basis. But it may also be said that inadequate evidence has been assembled, by those who oppose the plan, to demonstrate that worthwhile projects are capable of being financed. To this effect, it would be very desirable if members of MBA would voluntarily offer examples of instances in which financing has been made available for these kinds of facilities.

Should enactment occur, however, the expectations of those who see the prospect of 80 per cent government-insured loans as the means for greatly increasing the number of clinical and related facilities would not likely be matched by the reality. The proposal, as has been said, closely resembles those provisions now governing operations under Section 207 of the National Housing Act. These are so onerous to FHA borrowers that activity under them has virtually ceased. There is no reason to believe that they will prove more practicable for a new program.

If, to meet this difficulty, the restrictive provisions were materially eased, then the possibility of abuses would have to be faced. Medical office buildings, clinical buildings and private hospitals are, of course, socially desirable and often economically feasible undertakings. They also are tempting subjects for promotional enterprise. The lure of the full-value loan, especially under conditions where the determining of earning potentials is manifestly difficult, would certainly lead to trouble which might make that encountered under the fateful Section 608 of the National Housing Act seem mild by comparison.

Add to these problems that which would result from placing a program of this type in an agency and under an official wholly unfamiliar with mortgage finance. A special staff,

(Continued on page 54)

"If it is reasonable to use the backing of the federal credit to encourage the financing of medical facilities, then why not for other types of professional facilities which, in their own way, provide important services to the public?"

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Business Investment in 1955 . . .

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July 31-August 6, 1955

>> SAYS WALTER C. NELSON, CHAIRMAN, MBA'S EDUCATIONAL COMMITTEE:
"Members of the Educational Committee, because of their close association with the educational program, realize that it is one of our most important functions. The program is excellent. Many of the large investors and mortgage banking firms throughout the country have found it pays dividends to enroll their best young personnel in the School of Mortgage Banking.

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[redacted]

Voice of the Home Office

Correspondents Should Be Salesmen!

This life company official thinks that many correspondents too often forget that essentially they are salesmen and thus fail in selling what they have to sell to the investor. They could do a much better job if they would be more aggressive in doing it.

LOAN correspondents sometimes seem to lose sight of the fact that they are really salesmen. Every time a correspondent submits a loan application and supporting information to an investor, he is attempting to make a sale. It is a most difficult type of sale to make, as it must be made by means of a purely "paper" presentation. Before submitting an application, the correspondent has presumably convinced himself that the proposed loan would be a good investment; but, in forming his opinion, he has had the advantage of being able to personally inspect the property and its location and interview the applicant. The investor, on the other hand, has not had this opportunity and must judge the merits of the loan solely from the offering data. At best, this is not an easy job. Obviously, then, to be good sales material, the offering data should disclose *all* the facts that sold the correspondent himself on the loan and leave no important questions unanswered. If it does not do this, the investor—rather than to guess or assume—will probably follow the safest course, which is to decline the loan.

Practically every home office inspector has, at some time or other, had the experience of being asked by a correspondent to look at a property on which a loan had been declined, only to find that if certain features of the property or its location had been mentioned or emphasized when the application was submitted, the loan undoubtedly would have been approved.

Unfortunately, financial statements, application and appraisal forms, even if properly completed, do not always give the investor *all* the pertinent information that may be available to the correspondent. If a correspondent fails to pass on to his investor any such supplemental information in a brief covering letter, he is not doing a good job of salesmanship. Under the circumstances, it is surprising how often this is overlooked. It is more surprising how frequently even important information that *is* called for in the application or appraisal forms is omitted when the omission will obviously leave unanswered questions in the mind of the investor.

One good example is the failure to give the purchase price when a loan is sought in connection with a current purchase. Another is neglecting to explain the purpose for which the additional funds are to be used when the applicant is refinancing. It is so very evident that an investor would want information such as this, that it is hard to believe it would be overlooked; but the fact remains that many times it is.

Here are just a few more "sales tips" for correspondents:

» The use of the investor's application form rather than one with which he is not familiar will help promote a sale, as the investor's form is more likely to give him all the information he considers to be important, and he can analyze it much more readily.

» A certified copy of an actual operating statement is much more convincing than merely a statement of income and an estimate of operating expense made by a broker or appraiser.

» An executed copy of a sales contract is usually better evidence of actual market value than an appraiser's estimate.

» Clear distinct pictures are much more impressive than photographs that are under- or over-exposed. If

a photograph of the street view of a residence shows just a corner of a large structure, as they sometimes do, it is much more reassuring to the investor to have it explained that the structure is an attractive apartment building, rather than to have to guess whether it might be a factory or school.

Things such as these all help make a sale. It is not by any means intended to suggest that correspondents should resort to high pressure tactics; but if they would just try to do a little better job of selling, they would not only be helping their investors, but, to an even greater extent, they would be helping themselves.

Beat the Home Office to the Punch!

That's what this home office man advises. Get there first with information about your lending area, don't wait to be prodded about delinquencies. Keep one jump ahead of the home office, anticipate what they want to know, and you'll be better off.

EVERY correspondent would be wise to review each loan offering *critically* before sending it to an investor. This suggestion is not made merely for the purpose of checking to see if all pertinent forms, properly completed, are enclosed. The reviewer should attempt to change places with the mortgage loan officer or, more particularly, with one of those old "grey beards" on the committee making the final decisions. Think in terms of the questions that would come to *your* mind if you, as a trustee of other peoples' funds, had to pass on a loan on property many miles away from *your* office. Anticipate such questions and answer them frankly. Incidentally, if you actually exchanged places with the mortgage loan officer, or committee member, you would probably raise more questions and be tougher than he is. In your reviewing, do not overlook the importance of good photographs of the subject property, including rear views where helpful, and street scenes of both sides of the street.

You should visit, by appointment, your principal's office regularly once every year or two. Too many correspondents are rather regular visitors at the outset of a connection, but then lapse into visits only with the fieldman and with officers at MBA meetings. There is no substitute for personal visits with the home office personnel, and with the committee members.

If you find yourself in disagreement with some of your investor's practices, before complaining, talk it over with other correspondents representing the same investor. Maybe you're the only one out of step. If you are not, present the matter as a group. Not only is there weight in numbers, but you are not labeled a chronic complainer.

Keep your companies informed about your community, but do not overburden the investment officer with unnecessary literature. In the event of a catastrophe, such as a flood or tornado in your city, that will be national news. Write or wire your investor and give him brief details and your plans for checking on his investments. Officers not active in the loan department become quite concerned over such news. When the mortgage loan officer is asked about such events, if he can quote the correspondent it does much to create even greater confidence in the correspondent.

When you wish to talk long distance with some one in the mortgage department, it is advisable to wire first stating the time you will call and the matter you wish to discuss. The person you are calling can have the matter well in hand by the time you call and probably give you an immediate answer. When taken by surprise he seldom can give you an answer as he has to review the case first. He cannot remember in detail every pending case, and certainly not every account on his books.

Whenever you can, beat the home office to the punch! Do not require them to prod you for such items as delinquency reports and answers to their letters.

One remaining suggestion applies to both the correspondent and the home office: Give the customer paying off his loan the same prompt and courteous service as you give the one applying for a new loan. He is a potential repeat customer even though he may be refinancing elsewhere. Insist that your principal send canceled loan papers promptly upon receipt of the amount due him.

Voice of the Correspondent

Correspondents Deserve Protection

An insurance company which has assigned a certain lending area to a correspondent should protect him as to servicing loans in that area, whether the loans come from a broker or borrower, says this correspondent; and probably most correspondents will readily agree.

MORTGAGE correspondents in the eastern part of the United States—close to New York, the center of the mortgage money market—have different problems from those of correspondents in other sections. But our operation is no bed of roses, even though we are not plagued in too great a degree by periods of a complete dearth of mortgage funds. We do face considerable competition from direct lenders in the primary market. Our competition is in that market, rather than in the secondary market.

Historically, the records show that the investor who functions under the correspondent system has been able to secure the best results in building up a large volume of good quality loans which he would not be able to acquire in a normal market. Today, this problem is not as apparent because of the great supply of mortgage loans being created from the unprecedented building boom. A time will come, however, when the correspondent will be able to ferret out mortgages with more ease and better results than will investors coming into an area where they do not have local contacts. It seems to me that the investor should have enough foresight to realize that this day is coming. It would appear to be in the best interests of the investor to keep the correspondent in a strong position, financially and otherwise, so that the investor will be in a position to take advantage of the production of loans during a period when the going is rough.

The correspondent always is in the middle and, in most cases, the amount of profit derived from a mortgage loan transaction has been the same, whether there is a tight money market or an easy money market. When money is tight, the price of mortgages in the secondary market goes down so that a competitive yield might be realized; but there is a limit to what you can charge the borrower and the builder. The correspondent's profit remains about the same. In an easy money market the price of mortgages goes up, but this is usually passed on to the borrower or the builder, and the profit to the correspondent remains approximately the same.

Funds should be made available on an allocation basis far enough in advance to protect the correspondent from suffering losses because of a rapid change in the money market. When a mortgagee originates a deal in the primary market with the idea of fulfilling a particular investor's requirements, he is entitled to this protection. An insurance company which has assigned a certain area to a correspondent should protect him as to servicing loans in that area, whether the loans come in by a broker or directly from a borrower. Again, the stronger they make the correspondent, (and the best way a correspondent can become strong is by building up a large and profitable servicing account) the better job the correspondent will be able to do for the investor in attaining maximum results. Obviously, this could be accomplished if, when a loan is brokered directly to an investor, the broker is referred to the correspondent in whose area the security is located. It is not logical for a lender to compete with his appointed representative; any direct lending that he may do can do nothing but hurt the relationship.

A satisfactory, productive correspondent relationship is dependent upon a recognition of the extra responsibility that the parties involved have to each other over and above ordinary business dealings. The name implies mutual obligation and it is up to the institutions themselves to make it mean something.

Single Debit Won't Stay Put

It's a fine idea, a development that is proving of great value to both correspondent and investor. But some investors are changing and revising it constantly. What everyone who is using this system needs now is some standardization of procedure and methods.

FROM time to time new methods of operation are devised which accrue to the benefit of both investor and correspondent. These new methods are sometimes of greater benefit to one than to the other—and sometimes to the benefit of just one of them. This is all right so long as no one is hurt unduly. When any hurt does occur, it is usually to the correspondent, for his operation, to a great extent, is governed by the requirements of the investors he represents.

There has now come into being a system that is proving of definite value to the investors who have so far undertaken to put it into practice. This is generally known as the single debit system. Its purpose is to simplify the investor's accounting. It eliminates posting on the part of the investor of individual ledger sheets. It permits the investor to operate with one master ledger sheet for all loans bearing the same interest rate and rate of service fee. The correspondent must of necessity keep individual ledger sheets but this has always been the case, and the single debit system does not add to his burden in this respect.

There are two things that cause him trouble, however. First, each additional investor that undertakes this system usually designs a form which he thinks is a little better than the rest. Each designer is usually proud of his product and somewhat reluctant to change it. Not only is the arrangement of the form different but often requires more information and a different type of information, whereas the eventual result is about the same. Certainly the form can be standardized to the best advantage of all concerned.

Not long ago most investors had and demanded the use of their own remittance forms and all were different. Gradually, however, with mutual cooperation this has been adjusted. This was a move in the right direction and saved the correspondent a good deal of time and expense and made for a better servicing job for the investor. Now the single debit plan was designed for simplicity of operation but this plan is falling short of its original intent and may continue to do so unless the present trend is checked.

For instance, at the outset there was a basic single column form which required only the total of principal and interest. Then another single column form was added which had the interest computed separately. Then came a two column form which separates the principal and interest and necessitates interest calculations. This latter form requires approximately three times the amount of time needed for the simpler single column form. While there is a degree of similarity, the difference is sufficient that it is advisable for the correspondent to assign a different bookkeeper to each form to speed up reports and avoid errors. Now, we are offered a three column form which requires the distribution of principal and interest and the total.

The second problem is as to when remittance should be made. Some investors desire lump sum transfers in round figures, with a complete report at the cut-off point when the balance of the funds are to be remitted. Others desire a weekly report; still others desire reports on the 10th of the month, the cut-off point, and at the end of the month with the end of the month report only including delinquent loans in some cases. Others even waive the requirement for remittance reports once the correspondent proves he can operate under the plan. And then there is the investor who desires a normal flow of reports and funds.

Certainly, now is the time to consider standardization while the general idea of the single debit plan is still in its infancy and before the various different methods become too entrenched in the thinking habits of their authors.

Allotment Dilemma

Nothing is quite so hazardous for the correspondent as not knowing what funds to count on.

A RECOGNIZED and highly effective curb on the correspondent's volume, as opposed to allocations and quotas, is the application of varying degrees of selectivity toward securities as available funds fluctuate.

A home office, from month to month, or even from week to week, may change its position toward a given security offered by a correspondent or a branch office simply because funds are in short supply at the moment. Thus, an application may be approved as submitted this week but declined or reduced the next, even though identical appraisal and underwriting patterns were followed.

No question can be raised of the privilege of the company to reserve the right to pick and choose its investments, nor of the necessity of applying the brakes as over-production looms. Control, by selection, is as effective as the fixed allotment and its value lies in elasticity; but lacking a crystal ball or a ticker tape connection with the finance committee, the people on the field level are reduced to a state of indecision and uneasiness with every submittal.

No solution is offered here, for the correspondent representing companies with limited resources finds himself on the twin horns of a dilemma. Given the alternative of an allotment and budgeting his disbursements or volume controlled by selection and developing an anxiety neurosis, what should his choice be?

Investors and correspondents have been speaking their minds in these pages for some months and a great many of their mutual problems have been aired. Have you one which hasn't been covered? You are invited to submit it.

MBA Nominees for 1955-56

For President
LINDELL PETERSON

For Vice President
JOHN F. AUSTIN, JR.

John F. Austin, Jr.

Lindell Peterson, president of the Chicago Mortgage Investment Company, Chicago, is the nominee for MBA president for the 1955-56 term and John F. Austin, Jr., president of the T. J. Bettes Company, Houston, has been nominated for vice president. These nominations head a complete slate of officers and governors which will be presented to the membership at the next annual meeting of the Association during the Los Angeles Convention.

Nominated for positions on the board of governors, for terms expiring 1959, were:

Joseph M. Downs, vice president, The Ohio State Life Insurance Co., Columbus.

Thomas E. Lovejoy, Jr., president, The Manhattan Life Insurance Company, New York.

William A. Marcus, senior vice president, American Trust Company, San Francisco, California.

H. Bruce Thompson, president, Colonial Mortgage Service Company, Upper Darby, Pennsylvania.

Kenneth J. Morford, president, Burwell & Morford, Seattle.

Oliver M. Walker, president, Walker & Dunlop, Inc., Washington, D. C.

Robert M. Morgan, vice president and treasurer, The Boston Five Cents Savings Bank, Boston.

Nominated for regional vice presidents were:

Region 1: **Peter V. Cloke,** mortgage secretary, The Guardian Life Insurance Company of America, New York.

Region 3: **John A. Gilliland,** vice president, Knight, Orr & Company, Inc., Jacksonville, Florida.

Region 5: **Frank P. Flynn, Jr.,** executive vice president, National Homes Acceptance Corporation, Lafayette, Indiana.

Region 7: **E. R. Haley,** president, General Mortgage Corporation of Iowa, Des Moines.

Region 9: **F. M. Petree,** president, Home Mortgage & Investment Co., Oklahoma City.

Region 11: **Ward H. Cook,** president, Ward Cook, Inc., Portland, Oregon.

Nominated for positions as associate governors at large were:

Region 1: **Harry Held,** vice president, The Bowery Savings Bank, New York.

Region 3: **Lon Worth Crow, Jr.,** executive vice president, Lon Worth Crow Company, Miami.

Region 5: **W. W. Wheaton,** president, The Galbreath Mortgage Company, Columbus, Ohio.

Region 7: **Robert L. Beal,** president, Iowa Securities Company, Des Moines, Iowa.

Region 9: **B. B. Bass,** president, American Mortgage and Investment Company, Oklahoma City.

Region 11: **Ward A. Smith,** president, Ward Smith, Inc., Tacoma, Washington.

Robert Tharpe, president, Tharpe & Brooks, Inc., Atlanta, has been nominated for membership on the board for a term expiring 1957 to fill the vacancy created by the nomination of Mr. Austin as vice president.

Nominated for Trustees of the Research and Educational Trust Fund of the Mortgage Bankers Association of America were:

Franklin Briese, vice president and treasurer, The Minnesota Mutual Life Insurance Company, St. Paul.

Mrs. Ruth Bettes, Chairman, T. J. Bettes Company, Houston.

Peter V. Cloke, mortgage secretary, The Guardian Life Insurance Company of America, New York.

Harry Held, vice president, The Bowery Savings Bank, New York.

Lawrence G. Gillam, assistant vice president, Metropolitan Life Insurance Company, New York.

Byron T. Shutz, president, Herbert V. Jones & Company, Kansas City, Missouri.

William A. Clarke, president, W. A. Clarke Mortgage Company, Philadelphia.

Robert H. Pease, president, Detroit Mortgage and Realty Company, Detroit.

Mr. Peterson has long served on the MBA board and this year was vice president. In 1953 he was given the annual Distinguished Service Award of the organization in recognition of his work as head of our educational program.

The plan for establishing a charitable trust fund to broaden the scope of education concerning mortgage banking in schools and colleges was conceived by Mr. Peterson.

He is a graduate of the University of Illinois school of business administration and studied law at Kent College of Law. He is a past president of the Chicago MBA, vice president, Illinois chapter, American Institute of Real Estate Appraisers, and a member of the Union League Club of Chicago, the Executives Club of Chicago and Exmoor Country Club.

Mr. Austin, the nominee for vice president, began his banking career with the First State Bank of Frankston, Texas, following graduation from the University of Texas and the Graduate School of Banking at Rutgers University. He later became a state bank examiner in Texas and then served as senior bank examiner for the Federal Reserve Bank in Dallas. In 1942, he was elected cashier of the South Texas National Bank in Houston and a year later was elected vice president of the Houston Bank. During the war he was in the Navy, principally as a lieutenant in the office of the Assistant Secretary of the Navy in Washington.

In 1948, he joined T. J. Bettes Company, Houston, as executive vice president and following the death of Mr. Bettes was named president. He is president of Texas MBA, a former president of the Houston MBA and director of the City National Bank of Houston, Harrisburg National Bank of Houston, First State Bank of Frankston and several local, civic and charitable organizations.

New Members in MBA

CALIFORNIA, *Los Angeles:* The Colwell Company, Bunday Colwell, president; *Ontario:* The First National Bank of Ontario, George N. Stark, assistant vice president.

DISTRICT OF COLUMBIA, *Washington:* American Standard Life Insurance Company, Dudley S. Knox, secretary.

FLORIDA, *Jacksonville:* The Gulf Life Insurance Company, Joseph B. Moore.

GEORGIA, *Decatur:* The Commercial Trust Company, Judson B. Ackerman, president.

HAWAII, *Honolulu:* Hawaiian Trust Company, Ltd., Roy E. Devereux, assistant treasurer.

ILLINOIS, *Chicago:* D. R. Beaumont and Company, D. R. Beaumont, president; *Rockford:* Commercial Mortgage & Finance Co., B. D. Hogfeldt, president.

INDIANA, *Indianapolis:* Standard Life Insurance Company of Indiana, Edward H. Stein, secretary and investment officer.

KANSAS, *Topeka:* National Reserve Life Insurance Company, H. O. Chapman, Jr., assistant secretary-treasurer.

MICHIGAN, *Port Huron:* Women's Benefit Association, Fred M. Wolfe, manager, investment department.

NEW JERSEY, *Perth Amboy:* Perth Amboy Savings Institution, Ernest R. Hansen, treasurer.

NEW YORK, *New York:* Genesee Valley Union Trust Company.

PENNSYLVANIA, *Pittsburgh:* Peoples First National Bank & Trust Company, V. P. Schneider, vice president.

SOUTH CAROLINA, *Charleston:* C. Douglas Wilson & Co., Robert C. Harley; *Columbia:* C. Douglas Wilson & Co., R. W. Baxter and L. C. Howell; *Florence:* C. Douglas Wilson & Co., J. Henry Huff.

WEST VIRGINIA, *Huntington:* Huntington Trust & Savings Bank, A. Grant Beckett, president.

WISCONSIN, *Kenosha:* I. J. Bear & Son, Manford C. Bear, partner.

Progress Report on

UPON the shoulders of mortgage bankers today — collectively, as members of a progressive industry, and individually, as men of high purpose and integrity—there rests a tremendous responsibility.

In one short decade, since the close of World War II, mortgage banking has grown in importance and stature to a degree unmatched by any other industry. Currently, the total U. S. mortgage debt stands at an all-time high of approximately $113 billion.

University of Michigan School of Business Administration, scene of this month's Conference.

Add to this the anticipated housing boom of the 1960's, when the record number of war babies will start forming their own families, and it becomes apparent that continued expansion of the mortgage banker's role in our over-all American economy carries with it problems and issues of a significance unrealized heretofore.

Recognizing these responsibilities and realizing that, more than ever before, the mortgage banker must be equipped to perform as a true professional, MBA in November, 1953, established its Research and Educational Trust Fund, a Fund with threefold purpose.

» To provide a medium for the development of research studies dealing with problems of basic importance to our industry and beyond the limited financial means of MBA.

» To develop and promote an enthusiastic interest in mortgage banking by colleges and universities.

» To create a comprehensive and readily available library on literature pertinent to mortgage banking.

That MBA's educational record, to date, has been an achievement of the highest order is indisputable. Its initial Seminar program has developed and expanded to the point where this summer will witness the offering of three sections of the MBA-sponsored School of Mortgage Banking—Course I and Course II (a new-comer to the curriculum) at Northwestern University; and, for the first time, Course I at Stanford University. These Schools are fulfilling a great need and performing a very necessary service. They alone, however, are not enough.

The ever-accelerating demand for additional, properly-trained mortgage personnel makes it increasingly obvious that we must push ahead even further. No longer is it possible or practical to rely upon apprentice-type, industry-trained personnel as a total or even a major replacement source. We must expand our efforts farther afield, we must carry our program of mortgage banking education to its one most logical source, the fountainhead, so to speak, of learning —in short, the *colleges* and *universities* of our land.

We must enlist the aid of our nation's educators; we must make them aware of our need, and of the role they can so fittingly play. We must familiarize the faculties of our great universities and colleges with the educational potential and the opportunities existing in mortgage banking—for it is from the student bodies of today that can come, that *must* come, the mortgage bankers of tomorrow. The mortgage bankers of today must assume their full share of responsibility in securing the successful attainment of these goals and of providing for that future of our industry.

Though America's schools of business administration are doing an excellent job of teaching certain phases of real estate and finance, very little, generally speaking, is being done to train students specifically for the field of mortgage banking. This is due largely, we feel, to an incomplete understanding, on the part of educators, of the full significance of mortgage banking in the present-day economy and of the career potentialities in this field.

L. O. Kerwood

Thus it is that the MBA Research and Educational Trust Fund, in co-sponsorship with the School of Business Administration of the University of Michigan, inaugurates this month the first "Conference on Mortgage Banking for Business School Deans and Selected Staff Members" at Ann Arbor, Michigan, June 21-22.

Faculty members, all educators of great ability and long educational experience, of some 35 schools of business in important Midwestern universities have been invited to participate in this initial excursion into what, we hope and believe, will result in a profitable union of education and business in the field of mortgage banking.

The Conference has one principal objective — to provide educators in schools of business, in a brief space of time, with a more complete understanding of mortgage banking, how it functions, its importance in the nation's economy, the nature of its

MBA in Education...

. . . with the accent on the first project of the Research and Educational Trust Fund of the Mortgage Bankers Association of America, the forthcoming Conference for Business School Deans and Selected Staff Members at the University of Michigan. MBA's educational program has been one of its outstanding contributions to the mortgage industry and it is being broadened more than ever before. A new text for the industry is underway and a placement bureau for young men wishing to enter the field has been established. Here one of MBA's most worthwhile undertakings is brought up to date for members, every one of whom benefit from its accomplishments.

By L. O. KERWOOD
MBA Director of Education and Research

operations and the factors which influence its activities.

We hope, in this first program, to make clear to these educators the career potentialities for their graduates which do exist in our mortgage banking field—and, likewise, to interest these educators in recommending to their students that more of them consider mortgage banking as a career. We want, too, to stimulate their interest in adding to their curricula such specialized courses as real estate, real estate finance, financial statement analysis, appraising, etc. and to interest them in making use of materials which MBA will make available to them. If successful, these seminars will be extended to other regions of the country.

Speakers at the Conference will include some of the best informed men in the mortgage banking industry, men who themselves direct successful mortgage banking operations.

MBA President Wallace Moir, president, Wallace Moir Company, Beverly Hills, California, will discuss "The Economic and Social Significance of Mortgage Banking in the Nation's Economy," as well as "The Theories and Methods in Mortgage Underwriting." MBA Vice President Lindell Peterson, president, Chicago Mortgage Investment Company, will analyze "How Mortgage Banking Functions for the Home Buyer and the Income Property Investor."

John F. Austin, Jr., president, T. J. Bettes Company, Houston, will deal with "FHA-insured and VA-guaranteed Mortgage" while R. Manning Brown, vice president, New York Life Insurance Company, will speak on "Mortgage Investment Policies and Practices of Life Insurance Companies and other Institutional Investors."

"The Mortgage Market Today and This Year" will be covered by William A. Clarke, Immediate Past President of MBA and president, W. A. Clarke Mortgage Co., Philadelphia. He will serve, also, as moderator of a panel discussion on "This Is the Mortgage Business." Participating in the panel, in addition to Messrs Moir, Peterson, Austin and Brown, will be Aksel Nielsen, president, The Title Guaranty Company, Denver; Robert H. Pease, president, Detroit Mortgage and Realty Company, Detroit; and Byron T. Shutz, president, Herbert V. Jones and Company, Kansas City, Missouri. Mr. Pease will speak, also, on the subject of "Financing Commercial and Industrial Real Estate," while Mr. Shutz will discuss "Mortgage Banking and the Schools."

Also included in the Conference program will be an address by Samuel E. Neel, general counsel, MBA, Washington, D. C. His topic will be "The Legislative Influence in Mortgage Banking."

All Conference expense, including travel and accommodations of those educators attending, are to be borne by the MBA Research and Educational Trust Fund.

While formal programs, such as our Ann Arbor Conference, can do a great deal in furthering our cause of expanded education interest, it is also necessary for each mortgage banker, as an individual, to contribute significantly toward the development of closer working relationships with those colleges and universities in his own immediate area. There are a number of ways by which this may be accomplished.

One, very effective, is for the mortgage banker to go directly to the college campus for his hiring of new personnel. Any college placement bureau will cooperate gladly in such a venture. Another is for him to appoint himself a "committee of one" to visit his nearest school of business, explaining to the Dean and to instructors how they might develop courses at the graduate level which would pertain specifically to mortgage banking, and offering assistance in the way of materials, lectures, etc.

The banker, in his visit, should emphasize the contributions of mortgage banking to America's economy; he

should make a special point of the fact that it is an industry that contributes effectively to American prosperity, and few industries offer so bright a prospect for an active future, as does the field of mortgage banking.

Another key selling point would be an explanation of MBA's own educational and research program—with due emphasis on the degree to which MBA will assist in the introduction, establishment and promotion of specialized mortgage banking courses. Apart from one mortgage banking firm in the city, there is only one other that has ever come to the university and asked to establish some kind of a program."

Mortgage bankers who participate actively in such a campaign of personal visiting will not only be contributing immeasurably to the advancement of better Association-university relations; but, in a greater sense, will be helping themselves—in a most decisive manner. For, ultimately, as the universities participate more and more positively in the establishment of definite mortgage banking curricula, it is the mortgage banker, himself, who will benefit—by having made available to him a greater number of better-equipped, more thoroughly qualified personnel. Let it be said, that in the final analysis, the benefits which accrue to each member will depend in large part upon the scope of his own individual operation and participation.

It is conceivable, too, that a select number of universities may be awarded scholarships or grants for student study and research in the mortgage field. Naturally, the results of any such studies would be made available to, and would be of benefit to, the industry at large.

What is being done at the University of Michigan Conference is to supply a better understanding of the functions and operations of the mortgage industry for educators so they in turn will be better equipped to impart it to their students.

And not to be overlooked would be an ennumeration of those many services which MBA would provide to instructors of the colleges agreeing to offer these courses.

That many educators already are awakened to the potential benefits to be derived from visits of this kind, is evidenced in remarks such as those made recently by a dean of one of our prominent Midwestern universities. In speaking of student interest in a mortgage banking course, he added:

"I feel that interest could be stimulated if the mortgage bankers would come to the campus more often.

Though placing major emphasis upon the educational needs of its younger mortgage personnel, MBA in no way overlooks its senior members. Starting in 1945, and every year since 1947, MBA has joined with the faculty of the Graduate School of Business Administration, of New York University, in sponsoring a three-day "economic retreat," where the senior executives among our MBA membership may meet for discussion and critical evaluation of those economic and financial trends or developments of current, fundamental interest to them and the industry.

This annual coming together of banker and scholar is mutually advantageous; it has become a significant tradition, a highly successful and permanent feature of the educational program of both MBA and the NYU Graduate School of Business Administration.

Even now, 19 colleges and universities make use of the official MBA textbook, *Mortgage Banking*, by Robert H. Pease and Dr. Homer V. Cherrington, in verious real estate courses—an indication that some attention is gradually being turned in the proper direction. Sales of this text, to date, total upwards of 7,000 copies.

Those educational institutions which have adopted this text include: American University, University of Miami, Florida State University, Roosevelt University, Northwestern University, Indiana University, Johns Hopkins University, University of Maryland, Washington University, Rutgers University, Upsala College, New York University, City College of New York, Temple University, University of Pennsylvania, Southern Methodist, University, University of Rhode Island, University of Wisconsin and University of Wisconsin, Milwaukee.

Mortgage Servicing, by William I. DeHuszar, another MBA-sponsored text, has likewise met with wide acclaim. These two texts will be joined, shortly, by a third—*Mortgage Lending: Fundamentals and Practices*, authored by Willis Bryant, vice president of the American Trust Co., San

Francisco, California. Also in the process of being readied is an extensive bibliography of all books, pamphlets, brochures and other reference materials in the Headquarters library. These writings, of course, are available for use of members upon request without charge.

Recently, MBA has indicated its willingness to assist promising young graduates of high scholastic standing in locating career opportunities in the field of mortgage banking. Personal data sheets of four such young men have been circulated among the MBA membership. Response, nationwide, has been overwhelmingly commendatory. To date, a total of eighteen member companies have actually contacted these graduates; many more have written expressing their enthusiasm for this new service. A few typical comments read:

From FLORIDA: "The idea is excellent! Such a service is certainly valuable to the mortgage industry."

From TENNESSEE: "We are completely in favor of your program. . . . happy to tell you that we have recruited our staff of men from educational institutions . . . they are doing a very wonderful job, and I am convinced that if MBA members will follow the recommendations outlined by your Committee, their organizations will improve."

From NEW YORK: "We appreciate your writing and bringing these people to our attention."

From PENNSYLVANIA: "The brochure is a commendable one. I hope that you will continue to mail them from time to time and that ultimately it will become one of the continuing services of MBA."

From MINNESOTA: "I am indeed gratified to see that the MBA is taking direct action in the encouragement of establishing high educational standards for careers in mortgage banking. I would encourage you to continue."

From KANSAS: "Please keep us advised of future candidates."

From COLORADO: "You are making a very worthy contribution to the mortgage banking industry by submitting prospective employees and trainees for our consideration from time to time."

These responses would seem to indicate that there are many opportunities for young men of outstanding scholastic attainment and proper subject matter background; it seems further to indicate that MBA members are looking wisely to the future in the matter of personnel. From time to time, as other promising young men interested in mortgage banking careers become available from our educational institutions, the MBA Trust Committee will keep Association members advised.

It must not be supposed that, under today's conditions, a graduate faces a dearth of job opportunity upon his emergence from college; if anything, the reverse is true. A mortgage banker desirous of obtaining the services of top-notch, qualified personnel cannot afford to sit by, complacently waiting for them to beat a path to his door. Instead, he must actively seek out those men he wants, or they will elude him.

The progress made to date by the MBA Research and Educational Trust Fund, in its efforts to insure a continuing flow of trained and qualified mortgage personnel—to meet both present needs and anticipated future demands—has been noteworthy. But, as has been reiterated —over and over again—it is merely a beginning. Much yet remains to be done; much *can* be done.

Many are the problems which remain to be faced. Many are the challenges that lay in store. MBA, as always, is ready to accept these, to push forward—forever broadening its educational horizons.

>> BUILDERS' PROGRAM: Directors of NAHB, at their recent meeting, voted approval of a program which included these points:

>> Favor steps to encourage the investment of private pension funds in FHA and VA mortgages.

>> Oppose the bill to extend coverage of the Davis-Bacon Act to construction labor on single-family homes.

>> Favor reinstatement by FHA of the use of fee appraisers on existing construction until such time as all field offices become current in.

Report to the Members

WHY DON'T WE GIVE THE HOME OWNER A REAL PLOT OF GROUND? . . .

Two important subjects are often discussed these days: (1) How we can remove slums from our cities and (2) How we can give veterans and others a better home for their money—one that will bring more enduring happiness to its owner and his community.

As I have flown in and out of a good many cities this year in behalf of MBA, I have observed from the air, and inspected from the ground, many housing projects. It is obvious that we have one thing in quantity, as well as quality, in this country, and that is land. This will surprise you, I know, but almost all our cities are surrounded by it. Yet one observes that many 40-acre tracts on the outskirts of cities, with orchards or groves or farm land or desert surrounding them, will be packed with houses, four or five to an acre. The closer the pack, the more certain the slum.

Such packing is said to be necessary because of the high price of land or because "we are running out of land." Both reasons are fallacious. The amount of financing available determines the price of land, rather than the price of land determining what shall be built on it. A few subdivisions will have two homes to the acre. This spacious development makes a delightful community and one that will never become a slum. A cottage over 100 years old on a half acre or more never becomes a slum. But when houses are packed together and you can hear your neighbors' plumbing, a potential slum has been built.

If we want to do something for the veteran and the home buyer, and best of all for the community, why not require that there be not more than two home sites per acre?

And by whom could this be accomplished? Not the mortgage banker, for, generally speaking, he will and should make and agree to service any loan insured by the federal government which an investor will buy. Not the investor, for, generally speaking, he will and should purchase any needed investment which the government will guarantee, a correspondent will service and priced to show a reasonable yield. Not the builder, for, generally speaking, he will build any house he can finance 100 per cent and on which he can make a profit. Not the local zoning commission, for, generally speaking, it will not place a restriction which would put its community in a less favorable position than another city to receive mortgage funds federally-insured.

The only facility that could give the veteran a real break and the community a real lift is the government, through the Veterans Administration and the Federal Housing Administration, by requiring that no subdivision shall have more than two home sites per acre if federally-insured loans are desired.

In a recent article in the SATURDAY REVIEW, Frank Lloyd Wright says "The modern city is a modern wreck without the charm of an ancient ruin." This could be changed by requiring adequate land for each home site. If this were done, another statement by Mr. Wright would come to pass, "These old hang-overs of the medieval city that we have now outgrown will gradually disappear into the green spaciousness of Everywhere. What becomes of the drastic divisions now existing between town and country? As none will be needed, all will cease to exist as such. City and Country will have happily married . . . ."

Wallace Moir

WALLACE MOIR *President*

MBA Directory

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Young Men's Activities
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GOVERNORS, REGIONAL VICE PRESIDENTS, ASSOCIATE GOVERNORS AND PAST PRESIDENTS SHOWN PAGE 1

Conference

THREE of the questions uppermost in the minds of the nearly 1200 MBA members who were on hand for the Association's Eastern Mortgage Conference in New York (it was the largest regional meeting yet held) were:

» Are we over-building, and if so, by how much? Does it foreshadow a sharp down-turn later? Is today's building volume being partially borrowed from the future, or are we merely keeping up with our expanding population, our growing economy?

» How sound — or unsound — are these liberal mortgage credit terms? Is liberal mortgage credit the thing that is sparking the rapid increase in building?

» How is the Voluntary Home Mortgage Credit Program working out? What are its possibilities?

These were among the formal questions before the Conference; but others had equal priority for members' attention. There was the question of the tightening money market—and that there was a tightening could not be denied. Investors were frowning on 30-year loans. And as for the no-no-down payment mortgages, there was more than a little concern. Many investors were heavily committed for the immediate future and would not be taking quite the volume of loans they have been recently. But, overall, the Conference, in the sessions and in the foyers, reflected a picture of a booming business in mortgages, a fantastically high rate of building and generally favorable economic conditions which have had no parallel in past peace-time history.

But what specifically did people say? Some highlights:

Milford A. Vieser, financial vice president, The Mutual Benefit Life Insurance Company, Newark, and Chairman of the Eastern Mortgage Conference, said, "We meet at a time when we have had an uninterrupted business boom for over fifteen years, during which we have witnessed a volume of residential construction never before attained in our history.

"The high volume of residential construction has been most desirable. It has brought home ownership to the highest percentage of our people in our history. It has made a tremendous contribution to improved living standards for American people. It has been a great stabilizing influence on the national economy. A healthy rate of residential construction is highly desirable and necessary to meet the growing needs of our people and to maintain its stabilizing influence on our economy.

"The critical housing shortage which existed after the end of the war has generally been cured. We are now building housing units at a rate of two times the formation of family units. The present continued high level of housing starts has inflationary implications that are a source of concern for all who are interested in a sound home building industry and a sound mortgage financing industry.

"The basic cause for this apprehension has been the excessively easy credit caused by the 30-year no down-payment mortgage guaranteed by VA. In many areas of our country we have witnessed the negative no down-payment, a situation where the veteran actually borrows, in addition to the full purchase price of his home, all closing costs as well. I am happy that appropriate action has been taken to stop this practice."

MBA President Wallace Moir praised the country's fiscal authorities for their excellent accomplishments in the field of money management.

"The impact of money management by the Federal Reserve and the Treasury on the mortgage business has been not only prodigious but good. It has resulted in unlimited benefits to every single person in our country. Money management is the greatest single achievement of the present Administration.

"The objective of the Federal Reserve and Treasury is twofold: First, to control excessive inflation which would silently steal a larger and larger amount from the money each person earns; and, second, to promote a gradual business growth and its concommitant, the prevention of business recession. The greatest problem in reaching these desirable objectives is the overcoming of pressure by special interests, including builders, manufacturers, labor and financiers, brought to bear through the Congress and other channels.

in New York

"Money management has had a tremendous effect upon home building and all real estate development, as it affects the supply of mortgage money and interest rates. It is hoped that the Federal Reserve and Treasury will continue to be successful in overcoming the pressure of special interests and will be able to carry out their policy of sound money management."

Mr. Moir said investors are shying away from 30-year no down payment loans—and why not, he asked, since every veteran ought to have a stake in his home.

"Nine out of ten veterans can and would put a down-payment today but they don't because it is not required.

"Then why are the investors making these loans? The answer of course is the guaranty.

"The motive power for the building boom is the liberal mortgage credit.

"Now, I am afraid, we are reaching the end of the line, or actually have reached it, as far as loan-to-value ratio goes.

"One thing that certainly should be done is overhaul and modernize our laws that restrict loan-to-value ratio as far as conventional lending goes. Rather than adhere to our present rigid restrictions, a better policy would be to adopt the 'prudent man' rule which governs bond investments."

Leffert Holz, Superintendent of Insurance of the State of New York, whose position requires broad knowledge of real estate trends, says the outlook for the future is good.

"As to the economic condition of the country, business conditions generally are good; our per capita wealth is great; our purchasing power is tremendous. These all spell out continued prosperity. There is no doubt whatever that so long as these conditions continue the future of real estate is excellent.

"But there is also another side to the picture. Our national debt is increasing; our taxes remain high; our economy is influenced by inflationary conditions, and, to say the least, world conditions are unsettled. These factors should act as a sobering influence on our thinking when weighing the economic condition of our nation.

"What is the outlook for real estate in 1955? If common sense and a fair degree of caution are exercised, I say unhesitatingly that the outlook is good."

And are we overbuilding—the answer is emphatically no, in the opinion of **Leslie M. Cassidy,** chairman of the board of Johns-Manville Corporation.

"Although the possibility of overbuilding has been raised, the present pace of new home construction is actually the result of a revolution in income, a revolution in where people want to live and convenient credit terms.

"While this is true, another figure often overlooked is of greater significance. This is the fact that we will have about 1,600,000 new marriages this year.

"Before the war, two-thirds of our new families would have been satisfied to move into older buildings.

"And what is more, they now can afford to move into new homes. There has been a true revolution in income in the United States, not merely a marking up of wages and prices through inflation.

"Today, nearly three-quarters of our 37 million non-farm families are getting over $4,000 a year and therefore can afford — according to the standard bankers' rule-of-thumb—a $10,000 house, which today is a reasonably satisfactory one.

"And today considerably more than half of all our non-farm families earn not $4,000 but $5,000 per year. They can therefore afford a $12,500 house. For that price the home-building industry can give excellent value in most parts of the country even at today's prices and wages."

But the liberal mortgage terms came in for further criticism by an economist who has often spoken at MBA meetings, **Dr. George T. Conklin, Jr.,** financial vice president, The Guardian Life Insurance Company of America, New York. He told the Conference that we are in the greatest building boom of all history and that it is being sparked by the greatest boom in mortgages ever seen.

A continuation of the housing boom depends on liberal credit, he declared.

Now about the VHMCP. MBA members are interested in it and have

been watching its development since **Arthur W. Viner,** executive secretary of the National Committee, made his first comprehensive report at the MBA Chicago Conference in February. In New York he gave a more complete summary. Considerable progress has been made.

"As of April 15, we had received 4,278 applications for assistance, and more are coming in all the time," he said. "Most of the applications we have received so far are direct loan applications by the VA. All of these applications have been referred to participating lending institutions. Many of them have been referred in succession to several lenders. A good number have been rejected, and referrals terminated as hopeless.

"As of April 15, 85 loans had been made through the Program, 55 of them in the first two weeks of the month. Since April 15, the acceleration in our activity has continued. Loans have been made by all of the five types of lending institutions participating in the Program. Some of these loans are on houses in some of the most remote areas in the country. A number have been made on homes for members of minority groups. Some have been on new construction and others on existing houses."

He admitted that the going had been slow, that there had been delays and that one of the things that had been responsible is the slowness of getting a vast project such as this completely organized. But getting mortgage money out over the country on a geographical basis is the heart of the whole effort.

"This problem of covering the most remote areas is at the heart of VHMCP. If the normal ways of doing business had assured all areas of coverage by lenders, and if the funds had been allocated to these areas by nation-wide lenders, the need for the VHMCP would never have arisen. There would have been no VA direct loan program, and Fanny May would never have been so active. Now private funds are being allocated to the remote areas. The problem is to get them invested. This is the key to the Program's success, and it rests, more than anywhere else, in the hands of the mortgage banker. The big lenders, and many of the smaller lenders, are prepared to make FHA-insured and VA-guaranteed loans in the areas that were left behind in the housing boom. It is up to the mortgage banker, more than anyone else, to get these investment funds into the remote areas they have never before covered."

But he made a blunt and direct warning that there must not be a failure. He told the mortgage lenders and investors that they "have their necks out."

"You have said that the government does not belong in the mortgage lending field, and that you can fill the gaps left in the past by private lenders. If the VHMCP does not succeed, it is very doubtful that you will ever again be able to argue convincingly against greater and greater government lending programs. Fortunately, the Administration agrees. In giving its sponsorship to the VHMCP, the Administration and the Congress have indicated their belief that the savings of the public are best invested by the private institutions to which they are entrusted, and their confidence that the investment can be distributed to all sections of the population and the country in an equitable manner."

It was no news to anyone attending the Conference that the government is concerned about the expansion in mortgage and consumer credit.

Robert B. Blyth, assistant to the Secretary of the Treasury, told the Conference that the "Treasury is carefully watching three principal sectors of the nation's economy—the stock market, construction activity, particularly residential, and consumer goods production, particularly automobiles—with the idea that these movements will be carried to excess if they are supported by too much newly-created bank credit.

"A rapid advance in any sector of our economy, if not soundly based, can contribute more to unstable conditions—and even to inflation—than to sound economic progress," he declared.

"That is basically why, even in your own mortgage field, you should welcome the wholesome impact of flexible monetary policy. In the present active business situation, moderately higher interest rates should increase the pool of available capital. At the same time, flexible monetary policy may lay a modest restraining hand on excess building activity by reducing the availability of bank credit. Furthermore, increased interest cost, which in the mortgage field sometimes takes the form of discounts on the price of the mortgage, may also slow building activity a little. These are natural developments that tend to bring our economy into balance. In my opinion, we can achieve maximum home ownership in this country only with the use of flexible monetary policy dedicated to the maintenance of conditions in which individuals not only will have the opportunity to acquire their own homes in the first instance, but will have steady, productive jobs that will enable them to meet the financial obligations they assume."

Possible Conference conclusions: we are in a boom period for mortgage loans, one of the most favorable periods in its history if every factor influencing it is weighed properly.

» Immediately ahead is a period of somewhat tighter money but it is nothing to cause alarm.

» There are excesses in the economy, excesses which should give every lender some anxious moments. The sharp increase in mortgage debt warrants attention. But, over-all, it narrows down to a question of whether, if a culprit must be produced, that culprit isn't the government which may well have gone too far too fast in making easy credit available.

Look to Conventional Lending for a Big Part of the Profits of Tomorrow

MBA's New York Conference featured two panel discussions, one on insured loans similar to those which have played important roles in Association meetings in the past ten years, and another on the financing vehicle which has been the backbone of mortgage banking for generations — the conventional loan. Strange to say, it was the first time in a long time that

SOME WHO WERE THERE: William C. Fowler, James W. Rouse & Company, Washington, D. C. and Guy T. O. Hollyday, The Title Guarantee Company, Baltimore, upper left. Right, Elbert B. Schenkel, The Bowery Savings Bank, New York, Curtis Smith, J. Halperin & Company, Jamaica, New York, and Lon Worth Crow, Jr., Lon Worth Crow Company, Miami. Below left, Peter Bisco, Fitzgerald & Ingalls, Inc., New York, John F. Austin, Jr., T. J. Bettes Company, Houston, and Aubrey M. Costa, Southern Trust & Mortgage Company, Dallas. Right, Milton T. McDonald, T. B. O'Toole, Inc., Wilmington and friends.

THEY ALSO WERE THERE: J. Alfred Settle, Draper-Owens Co., Atlanta; Herschel Greer, Guaranty Mortgage Company of Nashville, Nashville; Paul A. Nalen, The Mutual Benefit Life Insurance Company, Newark; Frank C. Owens, Draper-Owens Co., Atlanta; Edward F. Lambrecht, Lambrecht Realty Company, Detroit; and John F. Regan, New York Life Insurance Company, New York. Right, D. Richard Mead, D. R. Mead & Company, Miami Beach; George H. Dovenmuehle, Dovenmuehle, Inc., Chicago; Roger N. Terrell, D. R. Mead & Company, Miami Beach; and Coleman A. Hunter, Atlantic Life Insurance Company, Richmond.

the conventional loan had enjoyed such star billing on an MBA program. If anyone who attended had expected a tug of war between FHA-VA and conventional loans he was disappointed. If there was a contest, neither won. But neither lost. There is a place for both types of mortgages, one supplements the other and, to offer a complete service, most mortgage companies just about have to offer every type of financing.

But, what was emphasized rather strongly, and particularly by President Moir who moderated the Conference, was that too many mortgage bankers have become so absorbed in insured and guaranteed loans that they have neglected the conventional side of the business—to their detriment.

"A great many mortgage bankers today," said Moderator Moir, "have little or no experience at all in conventional underwriting."

"The conventional loan is the cream of our business," said Oliver M. Walker, Washington, D. C. "You can make conventionals and forget about them. But of course we all recognize that there is a big place for FHA and VA also."

"I can't go along with that completely," said King Upton of Boston, a panel member. "From an investor's standpoint he can sleep well with his FHA's—probably a little better than with his conventional loans."

"He may sleep well, and maybe better, with his FHAs, but he abdicates his good judgment," said Emil A. Gallman, executive vice president of the New Jersey Savings and Loan League.

MBA Vice President Lindell Peterson: "The government has stimulated our business through FHA to a remarkable degree, but all of us want to see less government participation in our business. I think we all want to cut out government as much as we can."

Moderator Moir: "Have investors acted to increase their terms as result of the 30-year loan?"

R. Manning Brown, vice president, New York Life Insurance Company, New York: "Savings and loan associations have gone to a longer term loan and several of the life companies will go over 25 years. Others are considering the matter."

Moderator Moir: "How are we going to compete with the savings and loan associations with our 66⅔ ratio, how can we meet it?"

Mr. Gallman: "I don't know how you're going to meet it. Obviously the only answer is to get the state laws revised."

Mr. Brown: "Probably most insurance companies would favor going above 66⅔—but to what figure I do not know."

Milford A. Vieser, financial vice president of The Mutual Benefit Life Insurance Company, Newark: "New Jersey has pioneered in this respect and in our state you can go 75 per cent of value, but you have to put up cumbersome reserves between 66⅔ per cent and 75 per cent. But the trend to increase the 66⅔ per cent ratio will grow."

Mr. Walker: "If you have to go above 66⅔ per cent then the answer is usually a government-backed loan."

Mr. Peterson: "In our area the competition is stiff. Savings and loan associations go to 80 per cent. We have to watch our amortization carefully. We find our conventional loans best adapted to the higher priced field."

Moderator Moir: "We're up against the savings and loan associations with what they can offer. We rely heavily on advertising and I find the most effective advertising is pounding the pavements, next is direct mail and after that institutional advertising in the financial pages of the principal newspapers.

"As the evolution in the market continues, tract deals will not be as plentiful. These 'basket' deals are easy, but we can't rely on them as much as we have in the past. But there is a lot of business to be done where the conventional loan is ideally adapted. I am referring to hotels, industrial properties, commercial properties. I recommend that you segregate this type of business, however—you cannot have your 'basket' deal men working in these fields, or at least it hasn't proved to be advisable."

Moderator Moir: "In view of the great demand for capital, do we see an increase in interest rates?"

Mr. Walker: "Rates will go up if starts go to 1,400,000."

Mr. Brown: "The rate trend is up, I think. Of course, the trend of the economy determines the rate. At the moment insurance companies are very heavily committed."

Thomas J. Bennett, executive board, Feist & Feist, Newark: "Rates on conventional loans are firming."

Mr. Upton: "I expect a further tightening."

Mr. Peterson: "I, too, expect a further tightening, but just how much I cannot foresee."

Mr. Vieser: "I think we can expect only slightly higher rates."

Moderator Moir: "Then probably we can say that the trend is *less up* than investors would like, but *more up* than you mortgage bankers realize."

Discussion got back to conventional loans in general.

Hugo Steiner of New York, in the audience, asked the question which, in a recession, would be better on your books—"FHA or conventional?"

Mr. Upton: "I'd prefer to have government-backed loans in a foreclosure period."

William C. Batchelder, vice president, The United States Life Insurance Company, New York: "I would rather have a portfolio of good, seasoned conventional loans. Borrowers will not think they can walk away as in a VA loan in a foreclosure period. If we have to call upon the guaranty we will have a terrible public relations job facing us."

A member of the audience was curious to know how many had ever processed a VA foreclosure. It is a tedious, time consuming job, he observed. A show of hands revealed about thirty-five in the audience of possibly eight hundred have processed a VA foreclosure.

Conclusions:

» Government-backed loans are here to stay, they offer certain advantages conventionals cannot match. But they mean that a mortgage underwriter has largely resigned his judgment.

» The conventional loan field is where the mortgage man can show his judgment and skill—and it is a field that mortgage men aren't working as extensively as they should.

» **THE OPTIMISTIC VIEW:** "The need and demand for good new homes is bigger than ever in every price range, even though net new family formation has fallen far below the post war peak," says House & Home.

Convention in Los Angeles

Notes about the Plans

ALTHOUGH MBA's 1955 Convention city probably is farther away from the dead center of MBA membership than any other meeting city has been and probably will take a bit more traveling time than for any other convention of the past, it may well prove to be the largest the Association has ever held. Inquiries about the Convention, bookings of hotel accommodations, advance registrations and all the other preliminary activities which go to make up an annual meeting are heavier than ever before—and we're still five months away from the time the gavel first comes down. Reasons are obvious: the industry has been enjoying an excellent year, the outlook is promising and there is the added lure of Southern California. Vacations are being planned to parallel Convention time more than ever before. And, just as was true in 1951 in San Francisco, this will be quite a year for the ladies.

To bring members up to date on some of the more important Convention facts available at this time, first there is the matter of

» HOTEL RESERVATIONS: Some time ago members received our hotel form. Did you process yours? That's something for your immediate consideration. At this moment, we are completely out of suites at the Statler, Biltmore and Mayfair but they are available in the Town House and the Ambassador — incidentally, five of the world's finest hotels. Single and double rooms are available in all of these except the Statler. With that information before you, better act promptly to secure the accommodations you want. Write to our special MBA Housing Bureau, Convention Bureau, Los Angeles Chamber of Commerce, 1151 South Broadway, Los Angeles 15. Then there is your

» ADVANCE REGISTRATION: You might as well get that out of the way too by sending $15 for every member and $10 for each lady. Direct these to the MBA office in Chicago and by acting now you are assured that your name will appear on the advance list appearing in the official program. (And the printed program this year will be something you will want to take back home—it's that attractive.) The foregoing are matters for immediate consideration; now to pull back the curtain a bit to see what's ahead in Los Angeles, October 31-November 1 through 3 at the Association's 42nd annual Convention. First,

» THE PROGRAM: It's not ready to announce yet but it is almost in the wind-up stage at this moment. Long-time observers of MBA and other Association meetings, including this writer, think it is one of the best any group has offered. There will be a number of important national figures, yet there is plenty of down-to-earth offerings about our industry. There are four general sessions, mornings from 9 until probably 12:30 or 1. Your afternoons are free, that is for all except committee members who will be busy on certain afternoons. So, while the Convention program isn't quite ready for the typesetter yet, take it as a promise that it will be one of the most worthwhile you've seen at any Convention any time. Then there are the

» THE LADIES: As we mentioned, 1955 is sure to be a year for the ladies. No matter how often they've been to Southern California, they will want to come this year too—and this is the year for them to come. Special events are being planned for them but the principal event is already there—Southern California itself and all the hundred and one things of interest they will want to see and do. So, in your 1955 Convention planning, remember the ladies especially. And as for

» ENTERTAINMENT: There will be plenty of it, California-style. California is, as its own promotion emphasizes, the nation's playground, but it's also a busy, bustling industrial and agricultural area. You cannot possibly hope to see all the sights that you already have in mind—but you can do the best you can. MBA will be featuring another night club party on Wednesday evening in the Statler. Most members saw the two great shows which Clint Noble produced for MBA in recent years. Possibly all that needs be said by way of recommendation is that he is doing the Los Angeles show — so you know it will be the best. For the ladies, a

(Continued on next page)

fashion show and luncheon is planned at the world-famed Biltmore Bowl in the Biltmore Hotel as well as an interesting tour of the Los Angeles area. Another feature, new this year, will be something extra for our

›› NEW MEMBERS: This is to be a breakfast with the MBA board of governors as hosts to all the new MBA members who have joined the Association during the year which closes with the Los Angeles Convention. It's to be in the Golden State Room of the Statler. There's a lot more which you will be hearing about in these pages between now and October. There are two other matters which ought to have your immediate attention. The first is the

›› SPECIAL TRAIN: It leaves Chicago at 1 P.M., October 26, going through Colorado, stops at Santa Fe and Albuquerque and a trip to the Grand Canyon. Returning, we stop at Las Vegas and Salt Lake City. It's one of the most scenic trips in the world; and no matter how often you've come this way, you have never taken the exact trip which this special Santa Fe itinerary offers. Special arrangements have also been made for special cars from New Orleans to serve members in that general area. Connections will be made at Albuquerque. Add to all this the fact that you will be aboard one of the finest trains on one of America's great trans-continental rail systems. The whole trip is described in detail in a special folder which can be secured by writing the national office. The something-extra being offered is the opportunity to do all this in company with other MBA members. It will be almost like a pre-Convention for you. Some of those who have made reservations include:

Mr. and Mrs. Gerard J. Manack, Washington, D. C.; Mr. and Mrs. A. K. Northrop, New Orleans; Mr. and Mrs. Joseph A. Kaiser, Garden City, New York.

Mr. and Mrs. Nathan Goldman, New York; Mr. and Mrs. George H. Schmidt, and Mr. and Mrs. Harry A. Dundore, Baltimore; Mr. and Mrs. Robert A. Seise, Rockford, Illinois.

Mr. and Mrs. Wm. M. Carrico, Rockford, Illinois; Mr. and Mrs. J. Bayard Boyle, Mr. and Mrs. Hoshall Davis and Mr. and Mrs. A. Prather, Memphis.

Mr. and Mrs. John D. Binkley, Mr. and Mrs. Holman D. Pettibone and Mr. and Mrs. Paul W. Goodrich, Chicago.

Mr. and Mrs. Russell Hill, Cedar Falls, Iowa; Mr. and Mrs. Edward L. McConnell, Philadelphia; R. B. Roberts, III, Miami; Mr. and Mrs. James S. Briggs, Gary, Indiana.

Mr. and Mrs. E. W. Lutz, Longview, Washington; Mr. and Mrs. Harry B. McCracken, Mr. and Mrs. Paul W. Nelson and Mr. J. W. Vedder, Brookline, Massachusetts.

Mr. and Mrs. W. H. Belding and Mr. and Mrs. Dan Crane, Cleveland; Mr. and Mrs. Tad Fithian, Youngstown, Ohio; Mr. and Mrs. C. Douglas Wilson, Greenville, South Carolina.

Mr. and Mrs. Jay F. Zook, Cleveland; John F. Eleford, New York; Mr. and Mrs. A. E. Seymour, Cleveland; J. Dudley Johnson and R. K. Cooper, Coral Gables, Florida.

Mr. and Mrs. W. T. Ratliff, Birmingham; Mr. and Mrs. W. W. McCollum, Arlington, Virginia; Mr. and Mrs. Martin C. Brooks, Worcester, Massachusetts; Mr. and Mrs. Arthur Griffith, Macon, Georgia.

Mr. Murdock P. Claney, Wynnewood, Pennsylvania; Mr. and Mrs. Lawrence G. Pfefferkorn, Winston-Salem, North Carolina; Edward W. Asmus, Chicago; R. F. Evans and S. Burrows, Jr., Chattanooga.

John A. Gilliland, Jacksonville, Florida; Mr. and Mrs. E. M. Coen, Cleveland; Mr. and Mrs. John H. Skemp and Mrs. H. Robert Harper, Tampa.

Mr. and Mrs. Julian H. Lifsey, Jr., and Mr. and Mrs. Eugene Knight, Tampa, Florida; Mr. and Mrs. Nelson B. Merritt, Chicago; Mr. and Mrs. Frederick A. Thomson and Mr. and Mrs. Charles Broden, Detroit; Mr. and Mrs. Kenneth C. Crowder, Springfield, Illinois.

Mr. and Mrs. Frank H. Dunn and Mr. and Mrs. C. A. Jackson, Indianapolis; Mr. and Mrs. John T. Abernethy, Buffalo.

Mr. and Mrs. Robert B. McCall and Mr. and Mrs. Warren Berwick, Baton Rouge, Louisiana; Mr. and Mrs. Howard B. Noonan, Springfield, Ohio; Mr. and Mrs. A. C. Bryan, Chattanooga.

Miss Willie Mae Horn, Houston, Texas; Mr. and Mrs. Lex Marsh, Charlotte, North Carolina; Mr. and Mrs. Neil Christopher and Mr. and Mrs. Richard J. Neunier, New Orleans; Mr. and Mrs. Maurice C. Mackey, Indianapolis; and Mr. and Mrs. Herold G. Woodruff and Edith Woodruff, Detroit.

Mr. and Mrs. J. H. Mehmel, Wynnewood, Pennsylvania.

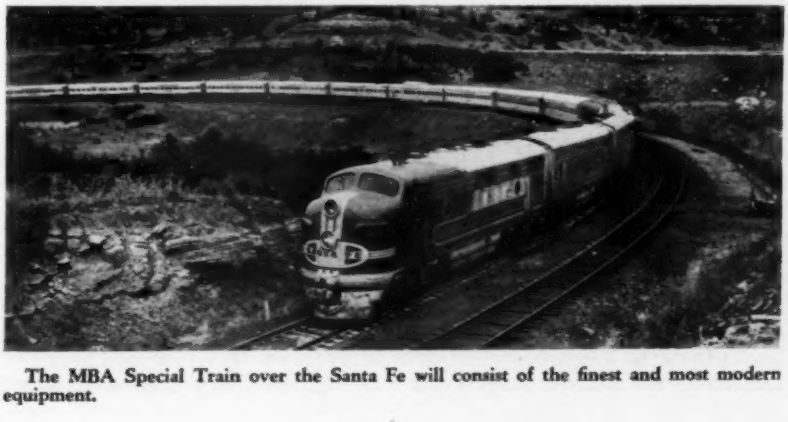
›› AND ON TO HAWAII: And to make your Convention trip entirely complete, something else has been arranged, a special tour to Hawaii. This too is described in a folder, and has been the subject of a recent article in *The Mortgage Banker*. Hawaii doesn't need any selling here but what might be emphasized is that here is the ideal opportunity to make the trip you have always planned to make—but this time in company with congenial MBA members. But the highlight of the Hawaiian trip will be MBA's first Clinic outside the Continental U. S. We will have a full-scale Hawaii Clinic, speakers from Island institutions (we have seven members in Hawaii) and from the States. It will be a full day, but the exact date is yet to be determined. So, going on to Hawaii means combining some business with pleasure. Some of those who will be along include:

Mr. and Mrs. Carl Harris, Clayton, Missouri; Mr. and Mrs. M. H. Guillot, Dallas; Mr. and Mrs. James S. Key, Odessa, Texas; Mr. and Mrs. Frank H. Dunn, Indianapolis.

Mr. and Mrs. Clarence A. Jackson, Indianapolis; Mr. and Mrs. W. T. Ratliff, Birmingham; Mr. and Mrs. Wm. M. Carrico, Rockford, Illinois; Mr. and Mrs. Mark V. Rinehart and daughter, Margaret, Louisville.

George H. Gooss and mother, Irvington, New Jersey; Mr. and Mrs. Robert A. Taggart, Detroit; Mr. and Mrs. John N. Lantz, Denver; Mr. and Mrs. Eugene Knight, Tampa, Florida.

Mr. and Mrs. C. N. Peck, Houston; Mr. and Mrs. Clyde T. Denton, Memphis; and Mr. and Mrs. Maurice C. Mackey, Indianapolis.



The MBA Special Train over the Santa Fe will consist of the finest and most modern equipment.

Detroit MBA Members Look at Better Design in Homes for Better Loans

Detroit mortgage bankers gave over the entire morning session of their annual spring Clinic to an exploration of a subject somewhat new to mortgage meetings, but likely to become more familiar in the years immediately ahead—"Better Design for Better Secured Loans."

AT DETROIT MBA: Speaking, Robert J. Hutton, Association President. Panel, from left, Neil A. Connor, A.I.A., director, Architectural Standards Division FHA; Paul Moffett, A.I.A., Lawrence Institute of Technology, Detroit; Prof. Thomas S. Tanner, Department of Architecture, University of Michigan; Homer B. Wells, Detroit realtor, moderator; Webb Coe, President, Builders Association of Metropolitan Detroit; and Frank D. Beebe, Chief Appraiser, Detroit office, VA.

For the purpose, the Detroit MBA constituted a panel made up of the Director of the Architectural Standards Division of FHA, two university professors of architecture, a VA appraiser and the president of the area builders' association. The Clinic ran morning, afternoon and evening.

Everything went along in routine though interesting fashion as to the part played by good design in the durability and delayed obsolescence of homes until one of the panel, Paul Moffett, A.I.A., of Detroit's Lawrence Institute of Technology, said that good design did no good with FHA—"they appraise on space, and not design—if a house has 1,600 square feet it will be appraised higher than one with 1,500 square feet."

Moffett said that he usually asked a prospective client whether he was going FHA. If the client said he was, Moffett said he did not throw him out, but sent him to another architect.

"FHA standards were set to give the consumer some protection," he explained, "but they are so rigid in interpretations that they stop good architecture. It does not produce bad construction, but it does not produce good architecture—only mediocre. One time I drew up plans for a series of duplexes, alternating the front and back yards, making both beautiful so it would be difficult to say which was front and which back. When this reached Land Planning in FHA it was thrown out. I went to them and asked them why. They answered that there was nothing in the rule book to allow it. I said 'why not change?' This man said, 'Mister, I am just a small cog in a big machine. If I act up I will only be replaced by another small cog'."

Moffett said there is no such thing as "style" in architecture—there is only good and bad. "Today architects have a better chance than ever because of the materials they have to work with."

Prof. Thomas S. Tanner, A.I.A., of the University of Michigan Department of Architecture, cited among vital requirements ample storage space, the provision of adequate ventilation where the roofs are low-sloping to remove the criticism of undue warmth in summer, and porches and terraces for outdoor living.

Neil A. Connor, A.I.A., the director of the Architectural Standards Division of FHA, said they have appointed an Architectural Advisory Committee to make long range studies for improvement and make a complete review of the underwriting manual and of MPR's for more incentives for quality building and more realistic minimums. They have also, he said, entered into a contract with Building Research Advisory Board, a part of the National Academy of Arts and Sciences, for answers on difficult questions, including slab-on-ground construction. "Good design must receive full valuations; poor design must be penalized or not accepted at all."

Webb Coe, president of the Builders Association, said there is no builder who would not like to have the services of the best architect available. He acknowledged the difficulty in amending FHA rules, but thought the action of Wendell Edwards, director of the Detroit Insuring Office of FHA, in naming an advisory committee representative of all segments of the industry, would help accomplish this.

(Continued next page)

New Greater Miami Officers Take Over

>> **NEW GREATER MIAMI MBA OFFICERS:** Incoming president, Henry E. Wolff, of the Henry E. Wolff Company, third from left, accepts the records of Greater Miami MBA from out-going president, R. B. Roberts, III, of the Keyes Company, left. Incoming vice-president, J. S. Billings, Jr., of Dade-Commonwealth Title Insurance Company, second from left, and secretary-treasurer, Charles Contopoulo, of Federal Title & Insurance Company, right, watch the proceedings. The newly-elected directors, not shown in the picture, are Lon Worth Crow, Jr., of Lon Worth Crow Company; Stanley P. Fosgate, of Stockton, Whatley, Davin & Co., and Robert Kistler, of C. W. Kistler Co.

DETROIT MBA

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Dr. Theodore Anderson, manager of the Economics Studies Department of the Ford Motor Co., predicted a continuation of the 1,400,000 newly built homes per year for the next five years.

An estimate of the immediate future in the mortgage business was undertaken by a panel consisting of Walter Gehrke, president of the First Federal Savings and Loan Association of Detroit; Raymond J. Hodgson and Roland A. Benge, vice presidents respectively of the Detroit Bank and National Bank of Detroit, Robert H. Pease, president of Detroit Mortgage and Realty Co. and Alfred F. Taylor, of the General American Life Insurance Co.

Gehrke said he questioned that the $13 billion predicted as being available for mortgage investment this year would be available to that extent.

J. S. Baughman, president of FNMA, was the speaker at the dinner and evening meeting. Robert J. Hutton, president of the Detroit MBA, presided, Benton B. Wolfe was general clinic chairman, Homer B. Wells moderated the morning session and Wendell Edwards presided over a 45-minute FHA question period.

—Harold Hallet

Percy Wilson Mortgage & Finance Corporation, Chicago, named four executives to newly-created posts. **James H. Slattery,** formerly assistant director of FHA, Chicago, becomes commercial loan manager. **Harry A. Schindler, Jr.** was named chief accountant. **James R. Davidson, Jr.** was appointed field supervisor. **Edward T. Bilek** has joined the company as closing department manager.

Appointment of **Roland C. Sherrer** as a vice president of Housing Securities, Inc., New York, was announced by Thomas P. Coogan, president. Mr. Sherrer joined Housing Securities in 1952, and prior to that had been with The Williamsburgh Savings Bank.

John F. Austin, Jr. Heads Texas MBA and Ames L. Gill Is Named Vice President

The Texas MBA did it again with its 39th annual Convention in Galveston but this time in a bigger way than ever before, which is considered normal for Texas. About 700 were there, the program was excellent and the entertainment features such that any organization would find it difficult to match what was offered this year.

John F. Austin, Jr., Houston, was elected president for the coming year. And it will be a busy year for him as Texas MBA president, vice president of MBA and president of the largest mortgage firm in the country. He succeeded G. Robert Swantner of Corpus Christi.

He was one of two Houstonians honored at the Convention. Everett Mattson won the J. E. Foster Award as the Texas mortgage banker who made the most outstanding contribution to the work of the Association during the past year.

The Foster Award is an annual feature of the convention. It consists of a plaque and watch donated by J. E. Foster & Son, Inc. of Fort Worth in honor of the founder of the firm, J. E. Foster, Sr.

Ames L. Gill of San Antonio was elected vice president of the organization and J. DuVal West of Dallas was reelected secretary-treasurer.

Nine new directors were elected, Pat L. Davis, Forth Worth; Robert W. Drye, Houston; William H. Crane, Houston; Robert G. Wilson, Jr., Houston; Carroll L. Jones, Corpus Christi; Oakes J. Turner, Dallas; James J. Teeling, Dallas; E. J. Hammann, San Antonio and Ancel E. Greene, Waco.

Mr. Austin is president of T. J. Bettes Company, Houston. Mr. Gill is president of the Richard Gill Companies in San Antonio and Mr. West is a partner in the Jones-West Mortgage Company in Dallas. Mr. Mattson is vice president of T. J. Bettes & Company.

L. Douglas Meredith, executive vice president, National Life Insurance Company, Montpelier, Vt., gave the Texas mortgage men this mortgage appraisal:

"An important factor influencing the trend of interest rates is the commitment position of life companies. While there will be approximately $32 billion available for investment in 1955, $5.4 billion or 17 per cent will come from the nation's life insurance companies. The extent to which the investment requirements of these companies make themselves felt on the money market depends to some extent on their commitment positions. When life companies are heavily committed, they are less eager for investments than when cash is piling up in the bank accounts. Under the latter circumstance, they will be reaching for investments and buying for near-term delivery, as well as for future delivery. To appraise the near-term money market outlook, it is essential to review the commitment position of these companies," he said.

"For the past several years, the investment research staff of the Life Insurance Association of America has compiled monthly figures of the forward investment commitments of life insurance companies. At the end of January these commitments, while down a little from their high, stood at $3,885 million, of which $2,367 million are expected to be taken down during the next six months. By the way of contrast, it is interesting to note that one year earlier these commitments stood at $2,849 million. The commitments at the end of January, when compared with April, 1951, as a base, were the highest for any January since the series has been compiled. Not only were commitments high, but some companies have adopted the practice of warehousing mortgage loans for their own account.

G. Robert Swantner, Corpus Christi, retiring president of Texas MBA, hands over the microphone to John F. Austin, Jr., Houston, newly-elected president. Left to right, J. DuVal West of Dallas, re-elected secretary-treasurer; Mr. Swantner; Mr. Austin and Ames L. Gill, San Antonio, elected vice-president. Below, Everett Mattson, Houston, won the J. E. Foster Award of the Texas MBA. Left to right, Mrs. Mattson, Mr. Mattson; J. W. Jones of Dallas, who made the presentation, and Mr. Swantner.

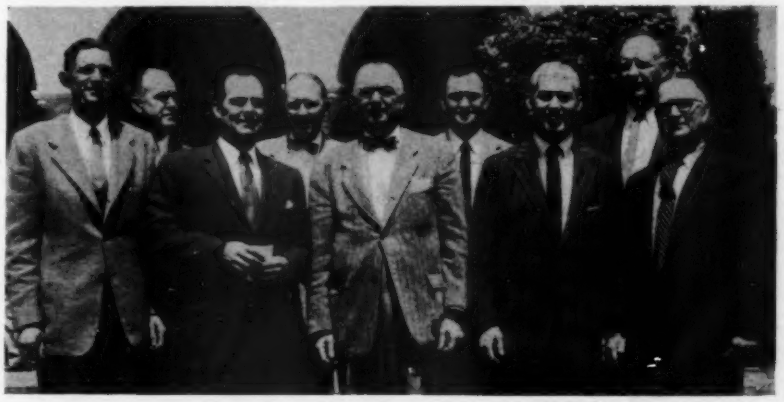
California MBA Is Organized; Urban K. Wilde Is Named First President

A new state-wide MBA has been organized, this time the California MBA, membership of which will include executives from leading banks, life insurance and title and trust companies and mortgage houses. Long in the planning stage, organization became a reality at Pebble Beach with the initial meeting attended by mortgage lenders and investors from over the state. Principal organizers were members of the Southern and Northern California MBAs.

The initial roster of officers includes president, Urban K. Wilde, Coldwell Banker & Co., Los Angeles; vice president, Willis R. Bryant, vice president, American Trust Company, San Francisco; secretary, Gordon Stimson, vice president, Wallace Moir Company, Beverly Hills; treasurer, Roger C. Olson, Mason-McDuffie Co., Berkeley.

"The primary functions of the new CMBA," according to Mr. Bryant, "are to supervise and encourage good lending practices, sound legislation education and good public relations."

At the organization of the new California MBA in Pebble Beach, the first president, Urban K. Wilde, Los Angeles, and the vice president, Willis R. Bryant, San Francisco, shake hands, with MBA President Wallace Moir looking on. Below, the new board of directors, Gordon Stimson, Beverly Hills; Kirk Whitehead, Berkeley; Mr. Wilde; E. W. Muhsfeld, Los Angeles; Mr. Bryant; Silas O. Payne, San Francisco; C. C. De Witt, Jr., Oakland; John Lyman, Los Angeles; and Wilbur Warner, San Francisco. Directors not shown are Walter B. Clark, Los Angeles; Roger C. Olson, Berkeley; Frank Champlin, Los Angeles; and E. W. Goodwin, San Diego. Below, the organizational group at Pebble Beach with the ladies.



Chicago Title and Trust company announced six appointments. In the title division **Alvah Rogers Jr.** was named assistant vice president and **Thomas Inkley** and **Richard L. Martin** assistant secretaries. **Paul L. Bartolain** was appointed assistant secretary and manager of the judgment department and **Thomas J. Fillmore** assistant secretary and manager of the examining department. **Grant T. Johnson** was named assistant secretary of the land trust department in the trust division. **F. Robert Quinlivan** has been named assistant vice president of Stockton, Whatley, Davin & Company, Stanley P. Fosgate, vice president, announced. Mrs. Clo Ann Grimes has been named assistant secretary of the firm, Miami.

U. S. Loans for Medical Facilities

(Continued from page 29)

competent in the area, would have to be found—a difficult thing in itself under present business conditions, as both FHA and VA are finding. Special underwriting procedures would have to be established—again a matter of considerable difficulty with the variety and non-comparability of the special-purpose structures that are involved. Finally, there would be the difficulty of maintaining the rigorous discipline of a sound credit operation. This would be faced by the policy making officials, who up to now have been concerned with dispensing funds on the basis of social needs rather than on ability to repay. Such conditions cast great doubt on the possibility that the plan, if enacted, could be made to work in a satisfactory manner.

To the arguments of lack of proven need and impracticability, must be added that of unwise public policy. If there is an apparent inconsistency between President Eisenhower's 1952 statement of principle and his 1955 health message to Congress, the former statement is certainly the one to be followed. During the past quarter century, it appears to have become a settled principle that any supposed insufficiency in the social or economic system makes a reasonable excuse for government intervention. As a result, the lines between what government ought or ought not to do for its individual citizens have become so thoroughly blurred that there now remains no theoretical limit to the expansion of the power and responsibility of the central government. In this process, government has already grown beyond the ability of anyone to comprehend its vast ramifications, it threatens to get beyond the capacity of men to manage. The signs of managerial breakdown are all too evident in the area of mortgage finance, with which the MBA is most familiar.

The pending proposal is more than merely a single additional step in the advancement of governmental responsibility. It is an opening of the door to additional other steps. If it is reasonable to use the backing of the federal credit to encourage the financing of medical facilities, then why not for other types of professional facilities which, in their own way, provide important services to the public? Why not for office buildings, shopping centers, harbor facilities, parking garages, schools, research centers and every other type of property or activity for which a public need or public interest could be claimed?

These are not light questions. With our lack of definition of government responsibility, each additional governmental aid breeds new demands; and each successive demand is more difficult to refuse than the last, the more so because each new aid will at some point have weakened the self-reliance, initiative and responsibility of the private economy.

It is suggested that the stopping point has been reached. If we do not stop, we may well have reached a "point of no return" to limited government and responsible private institutions, a point beyond which government may be overstrained and private institutions devitalized, by the weight of responsibility that has been placed on the state.

THE NEW CITY

(Continued from page 17)

without using its own funds and without injecting itself into the private market—can accomplish a public purpose through the established channels of private enterprise.

But if the FHA were to be converted to a privately-owned corporation, without government credit behind its debentures, then it could no longer serve a truly public purpose. The FHA mortgage would become quite a different credit instrument, that could not match the scope of its present function, either in the general mass market or for special needs.

Today, however, the need for its present service is even greater, particularly to further local redevelopment and rehabilitation. Under Section 220, special FHA mortgage insurance is extended for housing redevelopment and rehabilitation in renewal areas on the basis of the values to be generated by the area's redevelopment. Under Section 221, special FHA mortgage insurance is extended for low-cost housing for lower income families displaced from slums, as a means of bringing more private capital into this field and reducing passing needs for straight, subsidized public housing.

I have asked various partisans—but I have received no affirmative answer—who would, or could, provide this and other needed types of home financing if the FHA were converted to private corporate ownership.

To clear and re-plan a blighted area is not enough. The real test comes in our capacity to redevelop and rehabilitate these areas for the kind of use, the kind of living and the kind of business growth on which the future of the New City depends.

That is the job the FHA can and should help to get done. That is the job for the coordinated efforts of all the housing agencies in the field and in Washington. It provides the means by which government makes it possible for private enterprise, without sacrifice of sound business principles, to undertake this rebuilding responsponsibility.

If we are to realize our dream of the New City, the FHA must continue to serve that purpose. To change its basic character could only result in un-met public problems and needs to be provided for in some other, and probably more direct way. The FHA is an indispensable part of the magnetic core which holds together and vitalizes—gives meaning to—each of the great constituents in government housing operations today.

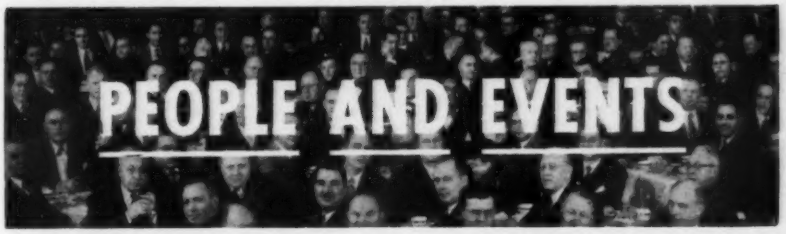
Fragmentation of this core is not, as I see it, a proposal to achieve the laudable purpose of getting the government out of private business.

It is a proposal to get the government out of government.

Eliminating the public purpose underlying the housing program would have a destructive effect on the whole government housing structure. It would make any question of comprehensive or coordinated activity toward the New City purely academic.

Most of the industry and, I feel sure, most of the country don't want it that way. We have gone too far—we are moving too fast—to turn back now—or to allow our program to be splintered into useless bits.

As condensed from Mr. Cole's address before the United States Chamber of Commerce.



Robert H. Hickman, formerly vice president of Johnson-Anderson Mortgage Company, Salt Lake City, Utah, has joined Security Title Insurance Company, Los Angeles, Howard H. Rolapp, president announced.

R. H. Hickman

Hickman's duties will be centered mainly in the field of finance as it affects the title insurance business.

Announcement is made of the merger of The Deming Investment Company of Oswego, Kansas, established in 1880, and Charles F. Curry and Company of Kansas City, Missouri. The resulting firm will be known as Charles F. Curry and Company, headed by Mr. Curry, with Donald Elbel, vice president and treasurer, Robert Malone, vice president in Kansas City and R. L. Harrison, vice president in Oswego, Kansas. This office and the Deming branches in Wichita, Tulsa and Durant, Oklahoma and Little Rock, Arkansas will be maintained as units of the new organization. All personnel of the Deming organization will remain with the new corporation. R. O. Deming, Jr., continues in an advisory capacity until March 1, 1956.

The Deming firm was founded by R. O. Deming, who was an early president of the Mortgage Bankers Association of America, as well as one of its founders. This year it is celebrating its 75th anniversary and has loaned more than $800 million in seven Southwestern states where it has operated in the past. At the time of the merger it had more than $80 million in loans on its books.

Edward R. Hwass of Port Washington, Wisconsin has been appointed to the new post of executive vice president of Crawford Corporation, Baton Rouge, La.

Mr. Hwass was formerly with Harnischfeger Corporation, Wisconsin prefabricated housing manufacturer. He has been general manager of the Houses Division of Harnischfeger since 1952. Prior to that, he was sales manager, and earlier was vice president of the Wisconsin company's mortgage loan subsidiary, Builders Acceptance Company.

Paramount Fire Insurance Company announces the election of a new director, **John H. Armbruster** of St. Louis. Mr. Armbruster is president of John H. Armbruster & Company and executive vice president of the Community Federal Savings and Loan Association of St. Louis. He fills the vacancy created by the death of James W. Collins. **Newell B. Dayton** has been appointed a member of the Directors' Advisory Council. Mr. Dayton recently assumed the presidency of the Tracy-Collins Trust Company and the Tracy Insurance Agency of Salt Lake City.

John S. Williams has purchased the mortgage loan business of Cody Realty and Mortgage Company in Winston-Salem, N. C., headed by **Hiram S. Cody,** a former president of MBA.

Mr. Williams has formed Williams Mortgage Services, Inc. and succeeds Mr. Cody's firm as correspondent for Metropolitan Life Insurance Company. He has resigned his position as representative for Northwestern Mutual Life. His entire business career has been in real estate, appraising and mortgage loans. Mr. Cody's announced plans are "to take a rest."

P. S. Bower, assistant general manager and treasurer of Great-West Life, is representing Canada at a Congress of the International Chamber of Commerce in Tokyo. Mr. Bower, director of the Canadian Chamber in 1954, is one of four businessmen chosen as official delegates to the 15th biennial Congress of the International organization.

Peoples Bond & Mortgage Co., Philadelphia, elected **Elwell Whalen** president, effective June 1. He has been a vice president of Central-Penn National Bank.

Election of **Robert W. Anderson** of New York as a vice president and chief investment officer of Northwestern National Life Insurance Company of Minneapolis, is announced.

Robert W. Anderson

Mr. Anderson was recently with the Vick Chemical Company in New York as a financial adviser for that firm, for the Reinsurance Corporation of New York, the National Reinsurance Corporation and for a large number of family trusts and related charitable foundations. He resigned those connections to join Northwestern.

» YOUNGER BORROWERS: Median age of those who buy homes under FHA is between 34 and 36. Analysis of 6,500 mortgages insured by FHA in the first 10 days of March, 1955, showed that the typical mortgagor buying a new home was 34.6 years old, and that the typical purchaser of an existing home was slightly over 36.

A similar analysis of 6,000 insured mortgages in 1939 showed the age of the typical new-home buyer at that time to be 36.2 years and that of the typical existing-home buyer to be 40 years.

In 1947, when many returning veterans were purchasing homes using combination FHA-VA financing, the median age for FHA new-home buyers was 33.1 years and for existing-home buyers 36.1 years.

Buyers are younger today than in pre-war years because they do not have to wait so long to accumulate the required equity, and because maturities now extending in many cases to 30 years permit lower monthly payments on the loans.

Over 30 per cent of the new-home buyers whose mortgages were insured between March 1 and March 10 of this year were under 30 years of age; over half were under 35; and all but about 7 per cent were under 50.

"This would seem to confirm the belief," said FHA Commissioner Mason, "that most couples buy houses at the time their families develop.

Buyers of existing homes were somewhat older. Less than a fourth were under 30; 45.6 per cent were under 35; and nearly 10 per cent were over 50.

The largest group of mortgagors, 21.6 per cent of the new-home buyers and 19.9 per cent of the existing-home buyers, were between 30 and 34.

For buyers of both new and existing homes, the average mortgage amount and property valuation were highest in the 35- to 39-year age group. This group accounted for 16.9 per cent of new-home buyers and 19.3 per cent of existing-home buyers.

» TIME TO STOP: Continued extension of federal public housing programs inevitably will reduce the incentive for some citizens to build their own homes, the Chamber of Commerce of the United States said. In a letter to Chairman John Sparkman of a Senate Housing subcommittee, it pointed out that "Every million dollars of tax money taken from the people for public housing, must make it a little harder for some lower, or moderate income persons to build their own homes."

The Chamber noted that since World War II, 9.5 million privately financed dwelling units have been built and occupied — one for every five families in the country.

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

Available: Young mortgage man with extensive experience in negotiating, appraising and closing all types of loans; good commercial loan experience, will make excellent representative for your company. Desires connection with institutional investor or large progressive correspondent. Write Box 346.